CAIIB 2026

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CAIIB Advanced Business & Financial Management
Edition May 2026
Published by :NODIA
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MRP ₹710.00

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CHAPTER 01
Basics of Management

Oct/Nov 2017

1. A large conglomerate acquires a small, specialized healthcare startup because the startup offers specialized services not attractive to large competitors but possesses high potential for fast growth. Which business model does this represent?
(A) Efficiency model
(B) Entrepreneurial model
(C) Profit Pyramid model
(D) Blockbuster model

May/June 2010

2. Consider the following characteristics of a management approach:
I. Creation of models, theories and hypotheses.
II. Collection of empirical data.
III. Testing with changes in variables.
IV. Overlooking the informal forms of organization.
Which of the above are main characteristics of the Quantitative approach to management?
(A) I, II, and III only
(B) I, II, and IV only
(C) II, III, and IV only
(D) I, III, and IV only

Oct/Nov 2023

3. Consider the following statements regarding the elements of Directing:
I. A manager's role in motivation involves urging subordinates to take actions required for achieving organisational objectives.
II. The quality of leadership displayed forms the very foundation of an organisation's success.
III. Supervision involves telling subordinates what they are required to do without needing continuous monitoring.
IV. Effective communicators strike a chord with their subordinates to perform as per top management expectations.
Which combination of the statements is correct?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, II, and IV only
(D) I, III, and IV only

May/June 2018

4. Consider the following factors that can impact the performance of a business:
I. Technological changes and advancements.
II. Ecological and social environment.
III. Regulatory changes.
IV. Political, social, cultural, and demographical changes.
V. Acts of God like earthquakes and floods.
Which combination of the statements is correct in defining the business environment?
(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2005

5. What is the primary objective of a 'Functional strategy' within a business entity?
(A) To spell out the general attitude towards stability, growth, and retrenchment in diverse markets.
(B) To form alliances with competitors to extend reach to global markets and share research costs.
(C) To dictate the overall corporate direction followed by the board of directors and executive officers.
(D) To achieve objectives by maximizing resource productivity and fostering distinctive capability.

May/June 2022

6. Who authored the statement: "A manager sets objectives, organizes, motivates, and communicates, sets yardsticks, and measures, to develop people"?
(A) Harold Koontz
(B) Henri Fayol
(C) Phil Condit

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(D) Peter Drucker

Oct/Nov 2014

7. Who among the following is noted for laying down fourteen principles of Total Quality Management?
(A) William Edwards Deming
(B) Ludwig Von Bertalanffy
(C) Daniel Katz
(D) Frederick Herzberg

May/June 2011

8. Which statement correctly highlights management's role in the development of resources?
(A) Management limits its focus to the procurement and development of physical capital, materials, and infrastructure.
(B) Management prioritises machine and material development exclusively over human resource development and training.
(C) Management helps in the development of human resources, machines, materials, and capital within the entity.
(D) Management diminishes the need for capital development by maximizing existing human resources and legacy tools.

Oct/Nov 2009

9. Who is widely acknowledged as the founder of modern management methods?
(A) Henri Fayol
(B) Peter Drucker
(C) Frederick Winslow Taylor
(D) Daniel Katz

May/June 2019

10. Consider the following elements of Strategic Management:
I. Environmental Scanning involves identifying internal strengths and external threats.
II. Strategy Formulation generates and selects corporate, business, and functional strategies.
III. Strategy Implementation ensures organizational decisions are consistent with the formulated strategy.
IV. Strategy Evaluation guarantees future success regardless of external changes.
Which combination of the above statements is correct?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, and IV only

Oct/Nov 2025

11. Which of the following Sustainable Development Goals (SDGs) is incorrectly paired with its focus area?
(A) Goal 9 – Industry, Innovation, and Infrastructure
(B) Goal 11 – Life on Land
(C) Goal 10 – Reduced Inequalities
(D) Goal 12 – Responsible Consumption and Production

May/June 2007

12. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): According to the 'Systems Thinking' discipline, we cannot act as a disjointed set of personal silos.
Reason (R): Systems thinking envisages that everything is interrelated and interconnected, requiring us to look at the whole picture.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2018

13. Match the Management Schools in List-I with their corresponding characteristics in List-II.
List I: (Management School)
P. Classical School
Q. Neoclassical School
R. Quantitative School
S. Contingency School
List II: (Characteristics)
1. Emphasises use of mathematical and statistical models.
2. Looks at the organisation as a machine and employees as its parts.
3. States there cannot be a unique way of managing an organisation.
4. Focuses on motivation and acknowledges

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informal forms of organization.
(A) P-1, Q-3, R-2, S-4
(B) P-2, Q-4, R-1, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2023

14. Which of the following is a correct statement regarding the complexity of the management process?
(A) A manager addresses only one isolated problem at a time until it is fully resolved and settled.
(B) Management tasks are entirely independent and never influence one another in a professional setting.
(C) The management process relies strictly on a static business environment devoid of external influences.
(D) Management complexity necessitates breaking down each activity into various parts or sub-activities.

Oct/Nov 2021

15. Which statement correctly describes Strategy Evaluation and Control?
(A) It is a logical step to obtain feedback from performance and take corrective actions as needed.
(B) It eliminates the need for any internal or external environmental scanning within the organization.
(C) It guarantees that success today will automatically translate into future success in the market.
(D) It is performed prior to the formulation of long-term strategic plans and core business missions.

May/June 2016

16. Consider the following statements regarding the Indian Banking industry and strategic management:
I. The Indian Banking industry has witnessed exponential growth since nationalization and liberalization.
II. Private sector banks adopted a technology-driven model from the beginning.
III. The share of Public Sector Banks (PSBs) in total advances and deposits has been increasing continuously since 2010-11.
IV. In 2020-21, PSBs constituted 59.9% of the total assets of Scheduled Commercial Banks.
V. Strategic Management has been and will continue to be a key driver for shaping banking operations.
Which combination of the statements is correct?
(A) I, II, IV, and V only
(B) I, III, IV, and V only
(C) II, III, and V only
(D) I, II, III, IV, and V

Oct/Nov 2012

17. A traditional company is facing severe market disruption due to new technologies. Instead of adapting collectively, its departments act as disjointed silos and employees refuse to participate in problem-solving. What core organisational framework does this company fundamentally lack to survive this challenge?
(A) A Learning Organisation structure
(B) A bureaucratic reporting structure
(C) A Contingency leadership model
(D) A Classical School structure

May/June 2015

18. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): According to Theory X, an average human being is inherently lazy by nature and desires to work as little as possible.
Reason (R): Theory X propounds that people can be self-directed and creative at work if they are motivated properly.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2013

19. Arrange the following steps of the Controlling function in the correct chronological order:
1. Comparison of actual performance against the established standards.
2. Establishing performance standards.
3. Taking corrective actions to achieve the desired objectives.

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4. Measurement of actual performance.

(A) 2, 4, 1, 3
(B) 1, 2, 4, 3
(C) 4, 1, 3, 2
(D) 2, 1, 4, 3

May/June 2008

20. A global corporation factors contingencies into its plans, introducing continuous strategic reviews at shorter intervals. It makes strategic planning information available to workers at various levels via local area networks, shifting away from a purely top-down approach to a more interactive one. Which phase of strategy development does this represent?

(A) Forecast-based Planning
(B) Basic Budgetary Planning
(C) Strategic Management
(D) Externally Oriented Planning

Oct/Nov 2006

21. Which of the following is a correct statement regarding the difference between a Plan and a Strategy?

(A) Strategy is a blueprint for goals, allowing natural thought flow and momentum.
(B) A plan is highly flexible and open for adaptation, while a strategy is very concrete and difficult to change.
(C) A plan encourages openness and debate from every side of the equation during the implementation phase.
(D) A strategy does not allow for deviation; if it fails, one must start a totally different long-term strategy.

May/June 2021

22. A software corporation provides its basic operating system to consumers for free to ensure widespread adoption and market saturation. Once the system becomes the universal norm, it begins selling high-end enterprise versions and complementary high-margin software. Which business model is this?

(A) Multi-component systems model
(B) Switchboard model
(C) Solution Providing model
(D) De Facto industry standard model

Oct/Nov 2010

23. What is the core premise of the System School of Management?

(A) Management is a closed system that functions entirely independently of external influences and environmental pressures.
(B) Management relies strictly on quantitative tools to eliminate external environmental variables from the decision process.
(C) Management must centralize all operations to avoid environmental conditions that might disrupt internal machine efficiency.
(D) Management is an open system that must interact with the environment for getting valuable and limited resources.

May/June 2005

24. Which function encompasses the principle that "telling the subordinates about what they are required to do may not always be sufficient"?

(A) Planning
(B) Supervision
(C) Motivation
(D) Task Management

Oct/Nov 2022

25. Which of the following analytical tools is highlighted as an accessible way for a manager to analyse, understand, and appreciate the business environment in which the organisation operates?

(A) SWOT Analysis
(B) Basic Budgetary Planning
(C) Extrapolation Techniques
(D) Profit Pyramid Modeling

May/June 2012

26. Under a business strategy, a firm may choose between a competitive or cooperative approach. Which of the following conceptually defines a cooperative strategy?

(A) The firm forms an alliance with other companies to extend its reach to global markets and get a competitive edge.
(B) The firm attempts to strictly differentiate its services to isolate competitors and protect its specific market.
(C) The firm sells off its marginally profitable units to focus purely on high-margin internal products and services.
(D) The firm relies exclusively on internal basic budgetary planning to grow and maintain its current market share.

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Oct/Nov 2016

27. Which of the following is an incorrect statement regarding the impact of Globalization?
(A) It has helped nations in specializing economically.
(B) It has significantly decreased the rate of co-operation at the international level.
(C) It has resulted in businesses finding new opportunities to grow and increase exports.
(D) It has resulted in the overuse of natural resources and reduction in forest cover.

May/June 2014

28. Which of the following is an incorrect statement regarding the fourteen principles of Total Quality Management?
(A) A consistency of purpose should be created for improving services and products to remain competitive.
(B) The organisation should stop depending on inspection for achieving quality and focus on building it in.
(C) Price should be the criteria for awarding business contracts to ensure immediate organizational profit.
(D) Modern on-the-job training methods should be established to foster continuous employee development.

Oct/Nov 2007

29. Consider the following statements outlining the importance of management:
I. It works as an effective change management tool to help transition an organisation from good to great.
II. It helps an organisation continuously adjust with the ever-changing external business environment.
III. It ensures optimum utilisation of scarce resources through efficient allocation.
IV. It eliminates the effects of business cycles and external fluctuations entirely.
V. It helps in the inculcation of team spirit among different departments.
Which combination of the statements is correct?
(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, II, III, and V only
(D) I, III, IV, and V only

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May/June 2025

30. What is the primary objective of the management theory known as 'Taylorism'?
(A) Focusing on motivation and human relations.
(B) Fostering a distinctive capability to create a competitive advantage.
(C) Improvement of economic efficiency and labour productivity.
(D) Creating a holistic view of external environments.

Oct/Nov 2019

31. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): In SWOT Analysis, the internal environment can usually be controlled by the top management in the short run.
Reason (R): Strengths and Weaknesses form part of the internal environment, covering organisational structure, available resources, and organisational culture.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2009

32. Consider the following statements regarding the Sustainable Development Goals (SDGs):
I. Goal 13 relates to Climate Action.
II. Goal 14 relates to Life Below Water.
III. Goal 16 relates to Peace, Justice, and Strong Institutions.
Which combination of the statements is correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2011

33. According to Peter Senge, which discipline helps individuals understand the difference between hearing what someone said and truly understanding what they said by requiring reflection on deeply ingrained assumptions?

(A) Shared vision
(B) Personal Mastery
(C) Systems Thinking
(D) Mental Models

May/June 2024

34. Which of the following provides the most appropriate overarching definition of Management?
(A) The process of maximizing dividend yield by manipulating internal reporting structures and organizational hierarchies.
(B) The rigid application of the Classical School principles to eliminate market competition and standardize workflows.
(C) The exclusive reliance on external consultants to formulate long-term corporate goals and evaluate daily performances.
(D) Creating an environment helping groups achieve goals established by stakeholders.

Oct/Nov 2008

35. To strengthen its position against its main competitor, a technology firm decides to ally with a software giant. This alliance helps the firm differentiate itself and extend its global reach. This action is an example of which type of strategy?
(A) Corporate strategy of stability
(B) Cooperative business strategy
(C) Functional strategy of R&D
(D) Corporate strategy of retrenchment

May/June 2006

36. Match the Sustainable Development Goals (SDGs) in List-I with their primary focus areas in List-II.
List I: (Sustainable Development Goals)
P. Goal 1
Q. Goal 2
R. Goal 3
S. Goal 4
List II: (Focus Areas)
1. Good Health and Well-being
2. Quality Education
3. Zero Hunger
4. No Poverty
(A) P-4, Q-3, R-1, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-2, S-1

Oct/Nov 2024

37. In management theory, what defines a 'Learning Organisation'?
(A) An organisation that relies solely on mathematical models to solve internal disputes and manage workflows.
(B) An organisation that uses the piece-rate system to drive labour productivity and ensure standard output.
(C) An organisation structured strictly on efficiency perspectives with a closed, protected information system.
(D) An organisation where all employees solve problems, enhancing its capacity to grow and learn.

May/June 2017

38. A manufacturing enterprise experiences a significant disruption due to changing business cycles. The management immediately reallocates resources and acts as a guide to employees to proactively solve day-to-day issues. Which specific aspect of the importance of management is primarily demonstrated here?
(A) Management of fluctuations and Problem solving
(B) Contributes towards better organisation
(C) Innovation and Inculcation of team spirit
(D) Proper direction to the organization

Oct/Nov 2015

39. How did Peter Drucker assess the contribution of Frederick W. Taylor to the science of work?
(A) Taylor formulated the definitive rules for motivation and employee behaviour.
(B) Taylor introduced the concept of the learning organisation which transformed industrial efficiency.
(C) Taylor laid only the first foundations of the science of work, with not much added to them since.
(D) Taylor established the framework for strategic management and corporate planning.

May/June 2013

40. Which of the following is an incorrect statement regarding the stated Visions and Missions of renowned entities?
(A) SBI's vision is to "Be the Bank of choice for a transforming India".
(B) PNB's mission is to "deliver superior value

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to our customers, shareholders, employees, and society at large".
(C) Google's mission is "To organize the world's information and make it universally accessible and useful".
(D) The Titan Company Limited's vision is "We create elevating experiences for the people we touch and significantly impact the world we work in".

Oct/Nov 2020

41. A manufacturing company audits its entire supply chain to minimize waste, eliminate single-use plastics, and ensure all packaging is fully recyclable. Which Sustainable Development Goal (SDG) is the company actively pursuing?
(A) Goal 3: Good Health and Well-being
(B) Goal 8: Decent Work and Economic Growth
(C) Goal 12: Responsible Consumption and Production
(D) Goal 16: Peace, Justice, and Strong Institutions

May/June 2020

42. During a strategic meeting, team members deliberately set aside their personal biases and collaborate to find the best generative solution to a complex market challenge. Which discipline of a learning organisation are they explicitly practicing?
(A) Mental Models
(B) Team learning
(C) Standardisation
(D) Elimination of exhortations

Oct/Nov 2017

43. According to Maslow's Hierarchy of Needs, arrange the following needs in the order of progression from the basic to the complex:
1. Self-esteem needs
2. Safety needs
3. Physiological needs
4. Love and Belongingness needs

(A) 3, 2, 4, 1
(B) 2, 3, 1, 4
(C) 3, 4, 2, 1
(D) 2, 4, 3, 1

May/June 2010

44. What is the most appropriate description of the 'Planning' function of management?
(A) Setting goals, objectives, and selecting the future course of action required to accomplish them.
(B) Structuring and arranging the human and material resources of the organization to meet objectives.
(C) Recruiting, selecting, and training suitable human capital to ensure all operational roles are filled.
(D) Guiding and supervising the activities performed by subordinates to ensure consistency in performance.

Oct/Nov 2023

45. To address the limitations of annual budgets, a company begins compiling long-term environmental data, utilizing extrapolation techniques to predict trends for the next five years. Consequently, managers spend significant time competing in meetings for larger funds allocation for their areas. Which phase of strategic management is the company experiencing?
(A) Basic Budgetary Planning
(B) Strategic Management
(C) Externally Oriented Planning
(D) Forecast-based Planning

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May/June 2018

46. Consider the following statements regarding Andrews' definition of corporate strategy:
I. It determines and reveals the company's objectives, purposes, or goals.
II. It defines the range of business the company is to pursue and the nature of the economic and non-economic contribution it intends to make.

Which of the statements is/are correct?
(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

Oct/Nov 2005

47. An entertainment conglomerate develops a single popular animated character and then licenses it for theme parks, clothing, and toys, generating massive overall revenue despite some individual ventures being initially unprofitable. Which business model is being executed?
(A) Advertisement model
(B) Switchboard model
(C) Profit multiplier model

(D) Time model

May/June 2022

48. An employee receives a substantial salary increase and extensive fringe benefits but continues to display a lack of motivation due to an absence of recognition and challenging work. According to Herzberg, the salary and fringe benefits act as:
(A) Hygiene factors
(B) Intrinsic satisfiers
(C) Self-actualization drivers
(D) Motivation factors

Oct/Nov 2014

49. Which management function explicitly takes care of promotions, job rotations, job enrichment, transfers, termination, and retirement activities?
(A) Staffing
(B) Controlling
(C) Organising
(D) Directing

May/June 2011

50. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): Effective managers must understand their external environment well and remain prepared for eventualities and contingencies.
Reason (R): A business does not operate in isolation; it functions within a pluralistic society and a dynamic world where technological, ecological, and regulatory changes constantly impact performance.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2009

51. Match the types of strategies in List-I with their focal points in List-II.
List I: (Strategy)
P. Corporate strategy
Q. Business strategy
R. Functional strategy
S. Cooperative strategy
List II: (Focal Points)
1. Approach adopted to maximize the productivity of available resources.
2. Forming an alliance with other companies to extend reach to global markets.
3. General attitude of the company towards growing and managing its different business lines.
4. Highlights the improvement in specific industry or market ranking of a unit's products.
(A) P-3, Q-4, R-1, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-3, R-2, S-1
(D) P-2, Q-1, R-4, S-3

May/June 2019

52. A bank realizes that consumer behavior has reached an inflection point and integrates fintech by deploying new business models combined with digital tools. While this enhances capabilities, it also creates significant internal disruption. What specific management challenge is the bank primarily addressing?
(A) Technological Changes
(B) Globalization
(C) Environmental Sustainability
(D) Reduced Biodiversity

Oct/Nov 2025

53. Consider the following elements of the Total Quality Management (TQM) approach:
I. A high degree of employee involvement is instrumental in preventing quality issues.
II. Standardisation involves avoiding industry benchmarks to create highly unique, unmeasured processes.
III. Continuous monitoring aims to achieve improvement in all areas of an organization.
Which combination of the above statements is correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2007

54. Which of the following is an incorrect statement regarding the functions of management?
(A) Staffing ensures the fixation of compensation

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for various categories of employees.
(B) Planning involves reviewing and monitoring the progress made for achieving business objectives.
(C) Controlling involves variance analysis and taking remedial measures for achieving planned targets.
(D) Organising becomes less complex and less important as the business grows.

Oct/Nov 2018

55. What is the definition of Management according to the Cambridge Dictionary?
(A) The formulation and implementation of a long-term strategy to manage an organisation.
(B) The activity or job of being in charge of a company, organization, department, or team.
(C) The systematic observation and study of workflows to improve overall economic efficiency.
(D) The process of creating an environment which helps individuals to achieve business goals.

May/June 2023

56. A consumer electronics firm allocates minimal funds to research and development. Instead, it achieves growth strictly by imitating and slightly improving the products launched by its competitors, thereby maximizing the productivity of its manufacturing resources. This approach is an example of a:
(A) Functional strategy
(B) Corporate strategy of growth
(C) Cooperative business strategy
(D) De Facto standard strategy

Oct/Nov 2021

57. Match the Sustainable Development Goals (SDGs) in List-I with their primary focus areas in List-II.
List I: (Sustainable Development Goals)
P. Goal 5
Q. Goal 6
R. Goal 7
S. Goal 8
List II: (Focus Areas)
1. Clean Water and Sanitation
2. Gender Equality
3. Decent Work and Economic Growth
4. Affordable and Clean Energy
(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-3, R-2, S-4
(C) P-4, Q-2, R-3, S-1
(D) P-3, Q-4, R-1, S-2

May/June 2016

58. Match the disciplines of a learning organisation (as per Peter Senge) in List-I with their descriptions in List-II.
List I: (Disciplines)
P. Personal Mastery
Q. Shared vision
R. Mental Models
S. Team learning
List II: (Descriptions)
1. The capacity to understand the impact of deeply ingrained assumptions and generalisations.
2. The humility and willingness to reflect, consider others' views, and forget personal biases.
3. Trusting people and collaborating to achieve joint goals rather than just complying with instructions.
4. Developing a capacity to achieve personal goals by creating a conducive growth environment.
(A) P-4, Q-3, R-1, S-2
(B) P-3, Q-4, R-2, S-1
(C) P-1, Q-2, R-4, S-3
(D) P-2, Q-1, R-3, S-4

Oct/Nov 2012

59. How does proper management specifically achieve the optimum utilisation of resources?
(A) By removing all reporting structures to flatten the organisation.
(B) By completely avoiding the management of business cycle fluctuations.
(C) Through efficient allocation of scarce resources.
(D) By strictly limiting the introduction of new service delivery systems.

May/June 2015

60. Consider the following statements regarding the management process:
I. The process of management involves multiple actions performed in a series to achieve business objectives.
II. It is classified as a social process as it

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involves relationships and co-operation between people.

III. The process of management is static and remains unaffected by economic or political developments.

Which combination of the above statements is correct?

(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2013

61. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): While strategy formulation decides what to do, strategy implementation is the process of executing the strategy.

Reason (R): Strategy implementation involves performing all the activities necessary to do what has been formulated, determining who will perform various tasks and how.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2008

62. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): Present-day management faces the challenge of maintaining a balance between environmental sustainability expectations and business goals.

Reason (R): Issues like poverty, inequality, and climate change have made environmental sustainability a priority topic, directly impacting the types of businesses undertaken by organisations.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2006

63. Consider the following statements regarding the disciplines of a learning organisation:

I. Shared vision creates an environment where management encourages employees to take risks and participate in the organisation's growth.

II. Systems Thinking is considered the cornerstone of a learning organisation and involves looking at the organization as a whole.

Which of the statements is/are correct?

(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

May/June 2021

64. Which of the following is an incorrect statement regarding Maslow's Hierarchy of Needs?

(A) Human beings have wants and desires which influence their behavior.
(B) A person advances to the next level of needs only after the lower-level need is at least minimally satisfied.
(C) The further the progress up the hierarchy, the more individuality and humanness a person will exhibit.
(D) Both unsatisfied and fully satisfied needs actively influence human behavior.

Oct/Nov 2010

65. Match the management functions in List-I with their corresponding descriptions in List-II.

List I: (Function)

P. Organising
Q. Staffing
R. Directing
S. Controlling

List II: (Description)

1. Guiding and supervising activities performed by subordinates.
2. Structuring and arranging resources, division of work, and allocation of responsibility.
3. Monitoring and measuring performances and comparing them with pre-decided standards.

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4. Recruitment, selection, training, and motivation of employees.

(A) P-2, Q-4, R-1, S-3
(B) P-1, Q-3, R-2, S-4
(C) P-4, Q-2, R-3, S-1
(D) P-3, Q-1, R-4, S-2

May/June 2005

66. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): In Externally Oriented Planning, top management centralizes the planning process at the apex level and seeks assistance from outside consultants.

Reason (R): Top management takes these steps to control the planning process due to ineffective five-year plans involving a lot of internal politics, and to prepare for a quick response to market dynamism.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2022

67. A strategy combines explicit statements and implicit beliefs around an organization. Consider the following components:

I. Mission – The organization's core purpose and current business scope.
II. Vision – An image of its future direction and what it intends to achieve.
III. Clientele – The resources and competences that create value for its clientele.
IV. Resources – Its scope, meaning its main clientele now and in the future.

Which combination of the statements provides the correctly defined components?

(A) I and II only
(B) III and IV only
(C) I, II, and III only
(D) I, II, III, and IV

May/June 2012

68. Which of the following NOT a salient feature of the Classical or Traditional School of management?

(A) Having an integrated and centralised corporate system.
(B) Assuming employees' continuity despite internal changes.
(C) Giving equal weightage to different jobs and employees.
(D) Propounding the influence of human actions on existence.

Oct/Nov 2016

69. Which of the following is NOT classified as a foundational element or function of management task division?

(A) Evaluating
(B) Planning
(C) Organising
(D) Directing

May/June 2014

70. Consider the following phases of Strategic Management development:

I. Basic Budgetary Planning involves all managers proposing the next year's budget primarily using internal data.
II. Forecast-based Planning compiles long-term environmental data in addition to internal information for multi-year plans.
III. Externally Oriented (Strategic) Planning withdraws planning from lower-level managers and centralizes it at the apex level using external consultants.
IV. Strategic Management phase dilutes the role of top management entirely and relies solely on external consultants for decision-making.

Which combination of the statements is correct?

(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

Oct/Nov 2007

71. Which of the following concepts is incorrectly paired with its description or author?

(A) Strategy definition – Carpenter & Sanders (2009)
(B) Strategy as the central, integrated concept of how a firm achieves goals – Chandler.

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(C) Corporate strategy definition – Andrews (1980)
(D) Strategy relating to obtaining a competitive position – Porter

May/June 2025

72. Match the Business Models in List-I with their descriptions in List-II.
List I: (Business Models)
P. Solution Providing Model
Q. Profit Pyramid Model
R. Multi-component systems Model
S. Advertisement Model
List II: (Descriptions)
1. Customers are provided low-priced products initially and gradually moved to expensive products.
2. The business provides consulting services which help improve the client's operations.
3. Offers the basic product free and makes money through promotions and commercials.
4. Sells a cheaper product on a no-profit basis and makes money on high-end complementary parts.
(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-3, R-2, S-1
(D) P-3, Q-4, R-1, S-2

Oct/Nov 2019

73. A manager removes external controls and threats of punishment, believing that subordinates have the capacity to exercise imagination and will exercise self-control towards organisational objectives. Which management theory is the manager applying?
(A) Classical Theory
(B) McGregor's Theory Y
(C) McGregor's Theory X
(D) Quantitative Management Theory

May/June 2009

74. Which of the following correctly pairs an area of the Organising function with its underlying question?
(A) Task Management – Who shall be reporting to whom?
(B) The Reporting Structure – At what level, decisions shall be made?
(C) Decision Making – Who shall make the decisions?
(D) Task Management – Who shall make the decisions?

Oct/Nov 2011

75. Consider the following benefits of Strategic Management:
I. Management gets a clearer sense of the strategic vision of the business entity.
II. Management is able to clearly focus on strategically important issues faced by the entity.
III. Management guarantees the elimination of the dynamic environment to simplify operations.
Which combination of the statements is correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2024

76. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): Strategy is most useful when creativity, collaboration, and innovation are of the utmost importance.
Reason (R): A strategy is very concrete in nature and does not allow for deviation, providing intermittent milestones to pass.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2008

77. Consider the following statements regarding the Information Explosion:
I. The unprecedented digital revolution has made data storage, retrieval, processing, and analyzing more difficult and technical.
II. Organisations capable of exploiting technological innovations easily eliminate the digital gap across all classes.
III. There is scope for deliberate spread of misinformation by people who lag behind and do not improve their capabilities.

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Which combination of the statements is correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2006

78. Which school of management thought asserts that there cannot be a standard solution to various business situations, and the optimal way to manage depends on the internal and external environment?
(A) System School
(B) Neoclassical School
(C) Contingency School
(D) Classical School

Oct/Nov 2024

79. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): An effective controlling function will always be preceded by proper planning.
Reason (R): It is very important that activities undertaken by management remain on the right track and are in line with the plans, targets, and objectives of the organisation.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2017

80. The management of a retail chain constantly monitors sudden demographical shifts and pending regulatory changes to adjust their inventory and marketing plans before the changes take effect. This proactive managerial action is primarily an application of:
(A) Total Quality Management (TQM)
(B) The System School of Management
(C) Business Environment Analysis
(D) Staffing and Reporting Structure

Oct/Nov 2015

81. An IT company decides to sell off its marginally profitable accounting software business to concentrate fully on its highly successful core consultancy business. Which specific type of strategy is the company executing?
(A) Cooperative Business Strategy
(B) Corporate Strategy of retrenchment
(C) Functional Strategy of innovation
(D) Strategy Evaluation and Control

May/June 2013

82. Which of the following NOT explicitly cited as a contributing factor to Reduced Biodiversity?
(A) Climate changes
(B) Introduction of invasive species
(C) Increased afforestation
(D) Acidification of oceans

Oct/Nov 2020

83. A manufacturing firm evaluates its suppliers based on the total cost of ownership rather than just the initial procurement price, deliberately reducing the number of its suppliers to build long-term quality partnerships. Which TQM principle is the firm implementing?
(A) Stopping lowest bid system
(B) Instituting leadership
(C) Driving out fear
(D) Eliminating exhortations

May/June 2020

84. Which of the following is NOT listed as a point highlighting the importance of management?
(A) Strategic management of business fluctuations
(B) Cultural inculcation of professional team spirit
(C) Creative problem solving in organizational tasks
(D) Direct elimination of industry competitors

Oct/Nov 2017

85. Consider the following statements regarding the evolution of management thoughts:
I. Henri Fayol propounded the 'formal organisation theory'.
II. The theory propounded by Fayol included six types of organisational activities.
III. Scientific management involves analysing and synthesizing workflows.
IV. Taylor's 'The Principles of Scientific Management' was voted the most influential management book of the twentieth century.
V. Several parts of Taylor's theory relating to

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industrial engineering and management are still relevant.

Which combination of the above statements is correct?

(A) I, II, and III only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

May/June 2010

86. In strategic management, organizational mission statements are often evaluated based on specific components. Which of the following is NOT typically a primary component of a mission statement?

(A) Technology
(B) Concern for public image
(C) Dividend yield
(D) Self-concept

Oct/Nov 2023

87. A commercial bank decides to issue green bonds specifically aimed at funding large-scale solar and wind power projects across rural areas. This strategic initiative most directly aligns with which Sustainable Development Goal (SDG)?

(A) Goal 7: Affordable and Clean Energy
(B) Goal 6: Clean Water and Sanitation
(C) Goal 4: Quality Education
(D) Goal 14: Life Below Water

May/June 2018

88. Which statement correctly outlines why a learning organisation is important?

(A) It seeks innovative ways of doing things to stay ahead of the competition.
(B) It adheres to standard rigid solutions to maintain predictable and stable corporate outputs.
(C) It lowers overall effectiveness to prioritize employee comfort and reduce workplace pressure.
(D) It prevents continuous structural changes to ensure absolute organizational stability over time.

Oct/Nov 2005

89. Consider the following statements regarding the Neoclassical or Behavioural School:

I. It developed because of the weaknesses observed in the classical theory.
II. It considers communication as a critical input for efficiency measurement.

Which of the statements is/are correct?

(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

May/June 2022

90. Consider the following statements regarding the functions of management:

I. Although the elements of management are inter-connected, each can be analysed as a sub-process.
II. The contribution of each management element to organisational success depends heavily on whether the entity is a public or private ownership.

Which of the statements is/are correct?

(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

Oct/Nov 2014

91. Which of the following is the most appropriate description of Basic Budgetary Planning?

(A) An elementary form of strategic management conducted annually with data confined mostly to internal sources.
(B) An advanced form of strategic management utilizing extensive external environmental data.
(C) A process where strategic planning is entrusted solely to external consultants due to internal politics.
(D) A top-down approach where plans are generated for a strict five-year period without lower-level input.

May/June 2011

92. According to the RBI Report on Trends & Progress of Banking in India dated 28th December, 2021, what was the percentage share of Private Sector Banks in the total assets of Scheduled Commercial Banks (SCBs) in 2020-21?

(A) 59.9%
(B) 6.5%
(C) 0.8%
(D) 32.8%

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Oct/Nov 2009

93. Match the Business Models in List-I with their descriptions in List-II.

List I: (Business Models)

P. Switchboard Model
Q. Efficiency Model
R. Blockbuster Model
S. De Facto industry standard Model

List II: (Descriptions)

1. Waits for the market to mature with standardisation and enters with low-cost, low-margin products.
2. Used by industries having patent protection where profits depend on a few items driven by star appeal.
3. Offers free or very low-cost products to saturate the market, later offering high-margin products.
4. Acts as an intermediary for connecting multiple sellers with multiple buyers.

(A) P-4, Q-1, R-2, S-3
(B) P-2, Q-3, R-4, S-1
(C) P-1, Q-4, R-3, S-2
(D) P-3, Q-2, R-1, S-4

May/June 2019

94. According to Herzberg's Motivation-Hygiene Theory, which of the following correctly pairs a factor type with its example?

(A) Motivation factor – Salary
(B) Motivation factor – Responsibility
(C) Hygiene factor – Challenging work
(D) Hygiene factor – Recognition

Oct/Nov 2025

95. Consider the following statements regarding the 'Directing' function:

I. Leadership involves influencing a person's or group's actions to meet desired objectives.
II. Motivation includes providing the desired stimulus to otherwise indifferent people.
III. Communication involves instructions flowing speedily from bottom to top and suggestions from top to bottom.
IV. Supervision helps ensure subordinates perform their functions properly and in time.
V. Effective two-way communication is the very basis of transfer of thoughts and facts.

Which combination of the above statements is correct?

(A) I, II, III, and IV only
(B) I, II, IV, and V only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

May/June 2007

96. Consider the following statements based on Bain & Company's 2017 Management Tools and Trends survey:

I. Strategic planning topped the list of 25 most popular management tools, used by 48% of respondents.
II. Mission and vision statements, core competencies, and scenario planning were ranked with zero usage among the global executives surveyed.

Which of the statements is/are correct?

(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

Oct/Nov 2018

97. SBI Funds Management Limited aimed to achieve the number one position in the Mutual Fund Industry. Recognizing that significantly increasing assets under management without internal changes was unlikely to succeed, management shifted focus to risk management, opened new branches, and increased technology use. This overarching master plan to maximize competitive advantages represents the company's:

(A) Basic Budgetary Planning
(B) Strategy
(C) Contingency Model
(D) Staffing Function

May/June 2023

98. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): The foremost challenge faced by management in managing change relates to resistance for change from people.

Reason (R): People well settled in their jobs generally prefer to stay in their comfort zones and do not want to learn new techniques or adapt to new technologies.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

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(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2021

99. Match the findings regarding leadership behaviour from the Ohio State University and University of Chicago in List-I with their specific characteristics in List-II.

List I: (Leadership Behaviour)
P. Consideration leader behaviour (Ohio)
Q. Initiating structure leader behaviour (Ohio)
R. Relation-oriented behaviour (Chicago)
S. Task-oriented behaviour (Chicago)

List II: (Characteristics)
1. Involves mutual respect, trust, and empowers people.
2. Believes in proper structure for planning, scheduling and aligning different roles.
3. Defines structure, business goals, and has a model for rewarding and punishing.
4. Shows support and concern for people and builds good rapport.

(A) P-4, Q-2, R-1, S-3
(B) P-1, Q-3, R-4, S-2
(C) P-2, Q-4, R-3, S-1
(D) P-3, Q-1, R-2, S-4

May/June 2016

100. A branch manager notices that ideas are failing to translate into action because instructions are frequently delayed and suggestions from clerks face continuous hindrance. Which specific element of management is predominantly failing in this scenario?
(A) Motivation
(B) Staffing
(C) Communication
(D) Reporting Structure

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ANSWERS

1. (B) Entrepreneurial model
The entrepreneurial model focuses on high-growth opportunities within specialized or underserved market segments. Large conglomerates often acquire startups to leverage their agility and innovation potential. This strategy allows the larger entity to enter fast-growing sectors that might otherwise be unattractive to competitors due to their specialized nature or initial small scale.

2. (A) I, II, and III only
The quantitative approach emphasizes the use of mathematical models, statistical theories, and empirical data to solve management problems. It involves systematic testing of variables to optimize decision-making processes. Unlike the neoclassical approach, it does not specifically focus on informal organizational structures but relies heavily on objective data and logical frameworks to improve efficiency.

3. (C) I, II, and IV only
Directing involves motivating subordinates to align their actions with organizational objectives. Leadership serves as the cornerstone for organizational success by guiding and inspiring the workforce. Effective communication ensures that instructions and expectations are clearly understood at all levels. Supervision, however, necessitates continuous monitoring of work progress rather than just giving initial instructions without follow-up.

4. (D) I, II, III, IV, and V
The business environment comprises various external factors that significantly influence an organization's operations and performance. These include technological advancements, ecological considerations, and social changes. Additionally, regulatory shifts, political dynamics, and demographic trends play a crucial role. Even unpredictable events like natural disasters or acts of God are integral components that managers must consider.

5. (D) To achieve objectives by maximizing resource productivity and fostering distinctive capability.
Functional strategies focus on optimizing the performance of specific departments such as marketing, finance, or operations. The primary goal is to maximize the productivity of available resources and develop unique capabilities that support broader business goals. By improving efficiency at the functional level, an organization can create a sustainable competitive advantage within its specific industry.

6. (D) Peter Drucker
Peter Drucker is widely recognized for his extensive contributions to modern management theory. He emphasized that the role of a manager involves setting clear objectives, organizing tasks, and fostering effective communication. His focus on motivating employees and developing their potential through measurable yardsticks has shaped contemporary views on how leadership impacts organizational growth and human development.

7. (A) William Edwards Deming
William Edwards Deming is renowned for developing fourteen principles aimed at improving organizational quality and productivity. His philosophy emphasizes the importance of consistency of purpose, continuous improvement, and the elimination of fear within the workplace. By focusing on systemic quality rather than just final inspections, organizations can enhance their competitive position and long-term sustainability.

8. (C) Management helps in the development of human resources, machines, materials, and capital within the entity.
Effective management involves the comprehensive development and coordination of all organizational resources. This includes nurturing human talent through training, optimizing the use of physical machinery and materials, and managing financial capital efficiently. By balancing these diverse elements, management ensures that the organization

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remains productive and capable of adapting to changing market demands and technological shifts.

9. (A) Henri Fayol
Henri Fayol is considered the founder of modern management methods due to his systematic approach to administrative theory. He identified five primary functions of management and established fourteen principles that serve as a foundation for organizational structure. His work shifted the focus toward a broader administrative perspective, emphasizing the importance of planning and coordination in business.

10. (A) I, II, and III only
Strategic management consists of environmental scanning, strategy formulation, and strategy implementation. Environmental scanning identifies internal strengths and external threats. Strategy formulation involves selecting the best course of action at various levels. Strategy implementation ensures that daily operations align with these chosen strategies. However, evaluation cannot guarantee future success, as external environments remain inherently unpredictable.

11. (B) Goal 11 – Life on Land
Sustainable Development Goal 11 focuses on making cities and human settlements inclusive, safe, resilient, and sustainable. The objective relating to "Life on Land," which involves protecting, restoring, and promoting the sustainable use of terrestrial ecosystems, is actually addressed under Goal 15. Correctly identifying these goals is essential for aligning corporate sustainability initiatives with global standards.

12. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Systems thinking is a management discipline that emphasizes the interconnectedness of all parts within an organization. It discourages acting in isolated silos because every action influences the entire system. By looking at the whole picture, managers can better understand complex relationships and patterns, leading to more effective decision-making that considers the long-term health of the entity.

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13. (B) P-2, Q-4, R-1, S-3
The Classical School views organizations as machines and employees as parts. The Neoclassical School shifts focus toward human motivation and informal organizational structures. The Quantitative School relies on mathematical and statistical models for decision-making. Finally, the Contingency School argues that there is no single best way to manage, as the optimal approach depends on specific environmental factors.

14. (D) Management complexity necessitates breaking down each activity into various parts or sub-activities.
The management process is inherently complex because it involves numerous interrelated activities that occur simultaneously. To manage this effectively, broad tasks must be broken down into smaller, manageable sub-activities or parts. This allows managers to address specific components of a problem while maintaining an overview of the entire operation within a dynamic and constantly changing business environment.

15. (A) It is a logical step to obtain feedback from performance and take corrective actions as needed.
Strategy evaluation and control serve as a critical feedback mechanism within the strategic management process. It involves measuring actual performance against predetermined standards to identify deviations. This allows management to take necessary corrective actions, ensuring that the organization remains on track to achieve its long-term objectives. It is an ongoing process that responds to environmental changes.

16. (A) I, II, IV, and V only
The Indian banking sector has grown significantly through nationalization and liberalization. Private sector banks have consistently utilized technology-driven models to enhance their operations. While public sector banks still hold a majority share of total assets, their relative share in deposits and advances has actually faced challenges from private competitors. Strategic management remains vital for steering future banking operations.

17. (A) A Learning Organisation structure
A learning organization is characterized by its ability to foster collective problem-solving and continuous adaptation. In this framework, employees are encouraged to share knowledge and participate in decision-making, breaking down department silos. Without this structure, an organization struggles to survive market disruptions because it lacks the internal agility and collaborative spirit required to embrace new technologies effectively.

18. (C) Assertion (A) is true, but Reason (R) is false.
Theory X assumes that the average human being is inherently lazy, dislikes work, and avoids responsibility. This perspective suggests that employees must be coerced or closely controlled to achieve organizational goals. In contrast, the idea that people are self-directed and creative describes Theory Y. Therefore, the reason provided incorrectly attributes Theory Y characteristics to the premises of Theory X.

19. (A) 2, 4, 1, 3
The controlling function begins with establishing performance standards that serve as benchmarks. Next, actual performance is measured to gather objective data. This actual performance is then compared against the established standards to identify any variances. Finally, corrective actions are taken to address these differences and ensure that the organization's desired objectives are successfully met.

20. (C) Strategic Management
The strategic management phase is characterized by interactive planning and the widespread availability of information across various organizational levels. It involves continuous strategic reviews rather than static periodic plans. By incorporating contingencies and utilizing local area networks for communication, organizations shift away from top-down approaches toward more collaborative and responsive planning processes that better navigate complex environments.

21. (A) Strategy is a blueprint for goals, allowing natural thought flow and momentum.
A strategy serves as a comprehensive blueprint for achieving goals, emphasizing the natural flow of thought and momentum within an organization. Unlike a rigid plan, a strategy is often more adaptable to changing circumstances while maintaining a long-term focus. It provides the framework within which detailed plans are developed, allowing for creativity and innovation during the implementation process.

22. (D) De Facto industry standard model
The De Facto industry standard model involves providing a basic product for free or at a very low cost to achieve market saturation. Once the product becomes the universal norm, the company generates significant profit by selling high-end versions or complementary services. This approach relies on network effects to lock in customers and establish a dominant market position.

23. (D) Management is an open system that must interact with the environment for getting valuable and limited resources.
The System School of Management views an organization as an open system that is constantly interacting with its external environment. It recognizes that businesses depend on external sources for critical resources such as materials, labor, and information. Management must therefore coordinate internal activities while remaining responsive to environmental changes and pressures to ensure long-term survival and efficiency.

24. (B) Supervision
Supervision goes beyond merely giving instructions; it involves the continuous monitoring and guidance of subordinates. It ensures that tasks are performed correctly and on time. This function bridges the gap between planning and execution by providing immediate feedback and support to employees, ensuring that their daily activities align with the broader operational goals of the organization.

25. (A) SWOT Analysis
SWOT analysis is an accessible and widely used tool that helps managers understand their business environment. By identifying internal Strengths and Weaknesses along with external Opportunities and Threats, an organization can develop strategies that capitalize on its advantages while mitigating risks. This structured approach

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allows for a balanced appreciation of both internal capabilities and external market dynamics.

26. (A) The firm forms an alliance with other companies to extend its reach to global markets and get a competitive edge.
A cooperative strategy involves forming alliances or partnerships with other companies to achieve mutual benefits. This approach allows firms to share resources, risks, and costs, especially when entering new or global markets. By working together rather than in pure competition, organizations can enhance their competitive edge and develop capabilities that would be difficult to build independently.

27. (B) It has significantly decreased the rate of co-operation at the international level.
Globalization has generally increased international cooperation by facilitating trade agreements and cross-border partnerships. It allows nations to specialize in economic activities where they have a comparative advantage, leading to growth and increased exports. However, it also brings challenges such as the overuse of natural resources and environmental degradation, which require coordinated global responses to manage effectively.

28. (C) Price should be the criteria for awarding business contracts to ensure immediate organizational profit.
Total Quality Management principles, as developed by Deming, advise against awarding business based solely on the lowest price. Instead, organizations should minimize total cost by building long-term relationships with single suppliers. Other principles include creating a consistency of purpose for improvement, ending dependence on mass inspection, and establishing modern on-the-job training to foster continuous development.

29. (C) I, II, III, and V only
Management is vital for transitioning organizations from good to great and adjusting to the external business environment. It ensures the optimum utilization of scarce resources and fosters team spirit across departments. While management helps mitigate the impact of external fluctuations, it cannot entirely eliminate the effects of business cycles, as these are driven by broad macroeconomic factors.

30. (C) Improvement of economic efficiency and labour productivity.
Taylorism, or Scientific Management, primarily focuses on improving economic efficiency and labor productivity. Frederick Winslow Taylor proposed that workflows should be analyzed and synthesized to find the "one best way" to perform each task. This approach emphasizes standardization, specialized training, and the use of monetary incentives to motivate workers and maximize the output of industrial operations.

31. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
In SWOT analysis, the internal environment consists of factors like organizational structure and culture, which management can typically control in the short run. These are categorized as strengths or weaknesses. Because these elements are internal to the entity, they can be modified through managerial decisions to better align the organization with external opportunities or protect it from threats.

32. (D) I, II, and III
The Sustainable Development Goals are a set of global targets established by the United Nations. Goal 13 focuses on taking urgent action to combat climate change and its impacts. Goal 14 aims to conserve and sustainably use the oceans and marine resources. Goal 16 promotes peace, justice, and the building of strong, inclusive institutions at all levels.

33. (D) Mental Models
According to Peter Senge, Mental Models are deeply ingrained assumptions and generalizations that influence how we understand the world and take action. This discipline requires individuals to reflect on their internal biases to bridge the gap between hearing words and truly understanding their meaning. It is essential for a learning organization to challenge these subconscious perceptions.

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34. (D) Creating an environment helping groups achieve goals established by stakeholders.
Management is most appropriately defined as the process of creating and maintaining an environment where individuals, working together in groups, can efficiently accomplish selected goals. These goals are typically established by stakeholders. This definition encompasses the various functions of planning, organizing, staffing, directing, and controlling to ensure that collective efforts are directed toward organizational success.

35. (B) Cooperative business strategy
A cooperative business strategy involves forming strategic alliances or partnerships with other firms, such as the software giant mentioned. This allows the firm to leverage external resources to differentiate its products and expand its global presence. By collaborating with a competitor or a complementary business, the organization strengthens its market position more effectively than it could alone.

36. (A) P-4, Q-3, R-1, S-2
Goal 1 of the Sustainable Development Goals aims to end poverty in all its forms everywhere. Goal 2 focuses on achieving zero hunger by improving food security and nutrition. Goal 3 is dedicated to ensuring healthy lives and promoting well-being for all ages. Goal 4 seeks to ensure inclusive and equitable quality education and promote lifelong learning.

37. (D) An organisation where all employees solve problems, enhancing its capacity to grow and learn.
A learning organization is defined by its culture of continuous improvement and collective problem-solving. Every employee is encouraged to participate in identifying and resolving issues, which enhances the entity's overall capacity to learn and adapt. This approach moves away from rigid, top-down structures toward a more flexible and collaborative environment that supports long-term growth and innovation.

38. (A) Management of fluctuations and Problem solving
When management reallocates resources and guides employees to handle day-to-day issues during business cycle disruptions, it is demonstrating the management of fluctuations and problem-solving. This aspect highlights management's role in maintaining organizational stability during economic shifts. By being proactive and providing clear direction, managers help the organization navigate uncertainties and resolve operational challenges effectively as they arise.

39. (C) Taylor laid only the first foundations of the science of work, with not much added to them since.
Peter Drucker acknowledged Frederick W. Taylor's significant role in establishing the science of work. However, he also noted that while Taylor laid the initial foundations, the core principles of scientific management had not been substantially expanded upon for decades. Drucker viewed Taylor's work as a starting point rather than a complete or evolving framework for modern management.

40. (B) PNB's mission is to "deliver superior value to our customers, shareholders, employees, and society at large".
While the mission statement provided for PNB sounds plausible, it does not exactly match the official wording used by the institution. In contrast, the statements for SBI, Google, and Titan are correctly attributed. Accurate mission and vision statements are vital for organizations as they communicate the core purpose and future aspirations to both employees and external stakeholders.

41. (C) Goal 12: Responsible Consumption and Production
By auditing its supply chain to eliminate waste and ensure recyclable packaging, the company is directly addressing Goal 12. This Sustainable Development Goal focuses on ensuring sustainable consumption and production patterns. It encourages businesses to reduce their environmental footprint through resource efficiency and waste reduction, thereby contributing to long-term environmental sustainability and the preservation of resources.

42. (B) Team learning
Team learning is the discipline where members set aside personal biases to engage in genuine "dialogue" and collective thinking. It focuses

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on the group's capacity to develop intelligence and ability greater than the sum of individual talents. By collaborating on generative solutions to complex challenges, the team practices a core element of Peter Senge's learning organization framework.

43. (A) 3, 2, 4, 1
Maslow's hierarchy of needs progresses from basic physiological needs to safety needs. Once these are met, individuals seek love and belongingness. Following these, self-esteem needs become prominent. The final and most complex stage is self-actualization. This progression assumes that lower-level needs must be satisfied before an individual can focus on higher-level psychological requirements.

44. (A) Setting goals, objectives, and selecting the future course of action required to accomplish them.
Planning is the foundational management function that involves defining an organization's goals and determining the best strategies to achieve them. It requires analyzing current conditions and forecasting future trends to select a specific course of action. Effective planning provides direction, reduces uncertainty, and establishes the criteria used in the controlling function to measure organizational success.

45. (D) Forecast-based Planning
The forecast-based planning phase emerges when organizations move beyond annual budgets to include long-term environmental data and multi-year trends. This phase is often characterized by internal competition for resources, as managers use extrapolation techniques to justify larger fund allocations for their specific areas. It serves as an intermediate step toward more integrated and externally oriented strategic management processes.

46. (C) Both I and II are correct
Kenneth Andrews defined corporate strategy as the pattern of decisions that determines and reveals an organization's goals and objectives. His definition also encompasses the range of business the company pursues and the specific economic and non-economic contributions it intends to make to its stakeholders. This holistic view integrates purpose, scope, and societal impact into a single strategic framework.

47. (C) Profit multiplier model
The profit multiplier model involves developing a core asset, such as a popular character, and then leveraging it across multiple different channels like licensing, toys, and theme parks. Even if some individual ventures are not highly profitable, the combined effect generates massive total revenue. This model maximizes the value of a single successful innovation across diverse market segments.

48. (A) Hygiene factors
According to Herzberg's Two-Factor Theory, salary and fringe benefits are considered hygiene factors. Their presence prevents dissatisfaction but does not necessarily create positive motivation or long-term engagement. To truly motivate an employee, "motivators" such as recognition, challenging work, and personal growth opportunities must be provided. Improving hygiene factors alone will not address a lack of motivation rooted in psychological needs.

49. (A) Staffing
The staffing function involves more than just initial recruitment and selection. It encompasses the entire lifecycle of human resource management within an organization, including training, performance appraisal, and promotions. It also handles job rotations, transfers, and the administrative processes related to termination and retirement. Staffing ensures that the organization has the right people in the right roles at all times.

50. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Managers must understand their external environment because businesses operate in a complex, pluralistic society. Various factors, including technological advancements and regulatory changes, directly impact performance. Since organizations are not isolated, they must remain prepared for contingencies. The external environment provides both opportunities and threats, making environmental awareness a crucial component of effective and proactive management and strategic planning.

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51. (A) P-3, Q-4, R-1, S-2
Corporate strategy defines the general attitude toward growth and managing various business lines. Business strategy focuses on improving the competitive position or market ranking of specific products. Functional strategy aims to maximize the productivity of available resources within departments. Cooperative strategy involves forming alliances with other companies to expand market reach and share costs or risks.

52. (A) Technological Changes
The bank is primarily addressing the challenge of technological changes by integrating fintech and digital tools. While these advancements enhance capabilities and meet evolving consumer behaviors, they also necessitate significant internal restructuring and adaptation. Managing this digital transformation is a critical task for modern organizations to remain competitive in a landscape characterized by rapid technological innovation and disruption.

53. (C) I and III only
Total Quality Management (TQM) emphasizes high employee involvement to proactively prevent quality issues. It also involves continuous monitoring across all organizational areas to foster ongoing improvement. Standardisation in TQM actually involves using industry benchmarks and measuring processes to ensure consistency and quality, rather than avoiding them. Therefore, the statement regarding standardisation in the provided options is incorrect.

54. (D) Organising becomes less complex and less important as the business grows.
As a business grows, the organizing function actually becomes more complex and critical. Growth necessitates more sophisticated structures, clearer division of work, and better allocation of responsibility. The other statements correctly describe staffing (compensation), planning (reviewing objectives), and controlling (variance analysis). Organizing remains a fundamental pillar for maintaining efficiency and coordination as organizational scale increases over time.

55. (B) The activity or job of being in charge of a company, organization, department, or team.
The Cambridge Dictionary provides a straightforward definition of management, focusing on the practical activity of being in charge of a collective entity. This includes overseeing a company, department, or specific team. While other definitions focus on strategic processes or environmental creation, this particular definition highlights the fundamental responsibility and role associated with managing people and operations.

56. (A) Functional strategy
The firm is applying a functional strategy by focusing on manufacturing efficiency and resource productivity rather than original research. By imitating successful products, it optimizes its specific operational functions to achieve growth. Functional strategies are department-level approaches designed to support broader business goals by maximizing the effectiveness of specific areas like production, marketing, or research and development.

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57. (A) P-2, Q-1, R-4, S-3
Goal 5 of the Sustainable Development Goals focuses on achieving gender equality and empowering all women and girls. Goal 6 ensures the availability and sustainable management of water and sanitation. Goal 7 aims to provide access to affordable, reliable, and clean energy. Goal 8 promotes sustained, inclusive economic growth and decent work for all individuals.

58. (A) P-4, Q-3, R-1, S-2
Personal Mastery involves developing individual capacity to achieve goals within a growth environment. Shared Vision focuses on trust and collaboration toward joint objectives. Mental Models involve understanding the impact of subconscious assumptions. Team Learning requires humility and the willingness to reflect collectively by setting aside personal biases. These five disciplines form the core of Peter Senge's learning organization.

59. (C) Through efficient allocation of scarce resources.
Management achieves the optimum utilization of resources by ensuring they are allocated efficiently across various organizational activities. Because

resources like capital, materials, and human talent are often scarce, managers must make strategic decisions about their use to maximize output and achieve objectives. This process involves coordinating different departments to minimize waste and enhance overall productivity and effectiveness.

60. (A) I and II only
Management is a series of interconnected actions aimed at achieving business objectives, making it a continuous process. It is also a social process because it relies on human relationships, cooperation, and the coordination of people's efforts. Far from being static, the management process is highly dynamic and must constantly adapt to changes in the economic, political, and social environment.

61. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Strategy implementation is the active phase where the formulated strategy is put into action. It involves executing all necessary activities, assigning tasks to specific individuals, and determining the methods for completion. While formulation focuses on decision-making and planning, implementation is the process of doing. Therefore, the reason correctly explains how implementation serves as the practical execution of strategic plans.

62. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Modern management must balance business goals with environmental sustainability because global issues like climate change and inequality have prioritized these concerns. These external pressures directly influence which businesses are viable and how they must operate to remain socially responsible. Consequently, sustainability has moved from a peripheral concern to a core strategic priority for organizations operating in a dynamic world.

63. (C) Both I and II are correct
Shared vision fosters an environment where employees feel empowered to take risks and contribute to growth. Systems Thinking serves as the vital cornerstone of a learning organization, as it encourages viewing the entity as a whole rather than a collection of separate parts. Both disciplines are essential for creating an adaptive and innovative organizational culture that can thrive.

64. (D) Both unsatisfied and fully satisfied needs actively influence human behavior.
According to Maslow, only unsatisfied needs serve as primary motivators for human behavior. Once a need is substantially satisfied, it no longer acts as a powerful driver, and the individual moves their focus to the next higher level in the hierarchy. The other statements regarding the influence of desires and the progression toward greater individuality are core tenets of Maslow's theory.

65. (A) P-2, Q-4, R-1, S-3
Organising involves structuring resources and allocating responsibility. Staffing focuses on recruitment, selection, and the motivation of employees. Directing relates to the guidance and supervision of subordinates' activities. Controlling involves the measurement of performance and comparison against pre-decided standards to ensure objectives are met. These four functions, along with planning, constitute the fundamental tasks of management.

66. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
In Externally Oriented Planning, top management centralizes the process and uses external consultants to bypass internal politics and ineffective long-term plans. This approach aims to make the organization more responsive to market dynamism. By removing planning from lower levels, the leadership seeks to gain a more objective, strategic view that is less influenced by departmental biases or internal conflicts.

67. (A) I and II only
A mission statement defines an organization's core purpose and current business scope. A vision statement provides a clear image of the company's future direction and what it aims to achieve. While clientele and resources are important, the descriptions provided in the options incorrectly swap their definitions.

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Mission and vision remain the primary explicit components that guide strategic direction.

68. (D) Propounding the influence of human actions on existence.
The Classical School primarily focuses on organizational structure, centralization, and efficiency, often viewing employees as parts of a machine. It assumes continuity and gives weightage to standardized jobs. The focus on how human actions and individual existence influence the organization is a characteristic of later behavioral or neoclassical theories, which emphasized the psychological and social aspects of the workplace.

69. (A) Evaluating
The primary foundational functions of management are planning, organizing, staffing, directing, and controlling. While "evaluating" is a part of the controlling process, it is not traditionally listed as a standalone primary function of management in the same way the others are. These five core tasks provide the framework for managing any organization effectively, regardless of its size or industry.

70. (A) I, II, and III only
The development of strategic management typically progresses through basic budgetary planning, forecast-based planning, and externally oriented planning. Each phase introduces more external data and strategic depth. However, the final "Strategic Management" phase does not dilute the role of top management; instead, it integrates planning throughout the organization and emphasizes interactive, continuous reviews rather than just relying on external consultants.

71. (B) Strategy as the central, integrated concept of how a firm achieves goals – Chandler.
The definition of strategy as a "central, integrated concept of how a firm achieves its goals" is actually attributed to Carpenter and Sanders. Alfred Chandler's work primarily focused on the relationship between an organization's strategy and its structure. Correctly attributing these definitions is important for understanding the historical development and theoretical nuances within the field of strategic management.

72. (A) P-2, Q-1, R-4, S-3
The Solution Providing Model involves consulting to improve client operations. The Profit Pyramid Model moves customers from low-priced to expensive products. The Multi-component systems Model sells a base product at no profit to make money on high-end components. The Advertisement Model offers free products while generating revenue through commercials. These models represent different ways companies create and capture value.

73. (B) McGregor's Theory Y
Theory Y posits that employees are naturally motivated, possess self-control, and can be creative in solving organizational problems. By removing external threats and controls, the manager is acting on the belief that subordinates will direct themselves toward organizational goals if they are properly engaged. This contrast with Theory X, which assumes workers are inherently lazy and require close supervision.

74. (C) Decision Making – Who shall make the decisions?
Within the organizing function, "Decision Making" specifically addresses the question of who holds the authority to make choices within the organization. Task management involves defining specific duties, while the reporting structure determines the hierarchy of who reports to whom. Correctly aligning these questions with their respective areas is essential for creating a clear and efficient organizational structure.

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75. (A) I and II only
Strategic management provides a clearer strategic vision and allows management to focus on the most important issues facing the entity. It helps navigate the dynamic business environment rather than eliminating it. Because the environment is inherently unpredictable, strategic management focuses on adaptability and preparedness rather than trying to simplify or remove external complexities that are beyond an organization's control.

76. (C) Assertion (A) is true, but Reason (R) is false.
Strategy is indeed most useful for fostering creativity and innovation. However, a strategy is not a rigid or concrete document that forbids deviation. Instead, it provides a flexible

framework that allows for adaptation as circumstances change. The reason incorrectly describes strategy as a static set of milestones, whereas its true value lies in its ability to guide growth through dynamic environments.

77. (C) I and III only
The digital revolution has increased the technical difficulty of managing data and opened avenues for the deliberate spread of misinformation. While technological innovations offer opportunities, they often widen the digital gap rather than easily eliminating it, as access and capabilities vary across different classes. Management must navigate these challenges to leverage data effectively while mitigating the risks of misinformation.

78. (C) Contingency School
The Contingency School of management asserts that there is no "one best way" to lead or manage an organization. Instead, the most effective approach depends on the specific internal and external circumstances of the situation. This school emphasizes that managers must be flexible and adapt their techniques based on the variables present in their unique business environment.

79. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Controlling is always preceded by planning because you cannot measure progress without established targets or standards. The function ensures that the organization's activities remain on the right track and align with its overall objectives. By comparing actual results to the plans, managers can identify deviations and take the necessary corrective actions to ensure organizational goals are met.

80. (C) Business Environment Analysis
Monitoring demographic shifts and regulatory changes to adjust business plans is a core part of business environment analysis. This proactive approach allows a retail chain to anticipate market changes and adapt its strategy before those changes occur. By understanding external factors, the organization can mitigate threats and capitalize on new opportunities, ensuring its operations remain relevant and competitive.

81. (B) Corporate Strategy of retrenchment
Retrenchment is a corporate strategy where a company decides to reduce its scope by selling off or closing down parts of its business. In this case, the IT company is divesting a marginally profitable unit to focus its resources on its core consultancy business. This allows the organization to improve overall efficiency and concentrate on its most competitive areas.

82. (C) Increased afforestation
Increased afforestation, which is the planting of trees in areas that were not previously forested, generally helps support biodiversity rather than reducing it. Factors that contribute to reduced biodiversity include climate change, the introduction of invasive species, and the acidification of oceans. These environmental challenges disrupt ecosystems and threaten the survival of various plant and animal species worldwide.

83. (A) Stopping lowest bid system
One of Deming's TQM principles is to end the practice of awarding business based on the lowest price tag. Instead, firms should move toward a single supplier for any one item, building a long-term relationship based on loyalty and trust. This focus on total cost of ownership rather than initial price helps ensure consistent quality throughout the supply chain.

84. (D) Direct elimination of industry competitors
Management focuses on improving internal efficiency, solving problems, and fostering team spirit to enhance competitiveness. While effective management helps an organization succeed in the market, its primary goal is not the "direct elimination" of competitors. Instead, it aims for sustainable growth and resource optimization, allowing the firm to thrive within its competitive landscape through better performance.

85. (D) I, II, III, IV, and V
The evolution of management thought includes Henri Fayol's formal organization theory and its six types of activities. Frederick Taylor's scientific management, which focuses on workflow analysis, remains highly influential today. His principles are still relevant in industrial engineering. These foundational theories collectively established the systematic study of management and continue

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to inform contemporary organizational practices and productivity strategies.

86. (C) Dividend yield
Mission statements typically include components like technology, concern for public image, self-concept, and the types of products or services offered. Dividend yield is a financial performance metric and is not considered a primary component of a mission statement, which focuses on the organization's core purpose and values rather than specific short-term financial outputs for shareholders.

87. (A) Goal 7: Affordable and Clean Energy
Funding solar and wind power projects through green bonds directly supports Goal 7, which aims to ensure access to affordable, reliable, sustainable, and modern energy for all. By financing renewable energy infrastructure, especially in rural areas, the bank contributes to reducing carbon emissions and promoting environmental sustainability, aligning its corporate strategy with global sustainable development targets.

88. (A) It seeks innovative ways of doing things to stay ahead of the competition.
A learning organization is vital because it encourages innovation and continuous improvement. By fostering a culture where everyone solves problems and shares knowledge, the organization can adapt quickly to market changes. This agility allows it to maintain a competitive advantage in a dynamic environment, unlike rigid structures that may struggle when traditional methods are no longer effective.

89. (C) Both I and II are correct
The Neoclassical School emerged to address the rigidities and human-element omissions of classical theory. It emphasizes the importance of human behavior, motivation, and social interactions within the workplace. This school also recognizes communication as a vital input for measuring and improving organizational efficiency, highlighting that people are more than just parts of a mechanical system.

90. (A) Only I is correct
The elements of management are interconnected yet can be analyzed as distinct sub-processes like planning or staffing. However, the fundamental principles of management apply to all organizations regardless of whether they are public or private. While ownership may influence specific goals or constraints, the underlying need for effective coordination and resource management remains a constant requirement for success.

91. (A) An elementary form of strategic management conducted annually with data confined mostly to internal sources.
Basic budgetary planning is the simplest phase of strategic development. It focuses on the upcoming year and relies heavily on internal operational data. While it helps in resource allocation, it lacks the long-term perspective and external environmental scanning found in more advanced strategic management phases. It is often the starting point for organizations as they begin to formalize their planning.

92. (D) 32.8%
According to the RBI report for 2020-21, private sector banks held a 32.8% share of the total assets of Scheduled Commercial Banks in India. Public sector banks remained the dominant group with a 59.9% share. Understanding these proportions is important for analyzing the competitive landscape and the relative influence of different banking sectors on the national economy.

93. (A) P-4, Q-1, R-2, S-3
The Switchboard Model acts as an intermediary for buyers and sellers. The Efficiency Model focuses on low-cost entry into mature markets. The Blockbuster Model relies on star appeal and patent protection. The De Facto industry standard Model uses free products to saturate the market. Each model represents a specific strategic approach to achieving profitability and market dominance.

94. (B) Motivation factor – Responsibility
In Herzberg's theory, responsibility is a true motivator that can lead to increased job satisfaction and performance. Salary and recognition are often categorized differently; salary is a hygiene factor, while recognition is a motivator. By focusing on giving employees more responsibility and autonomy, managers

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can foster deeper motivation compared to merely improving working conditions or pay.

95. (B) I, II, IV, and V only
The directing function involves leadership, motivation, and supervision to ensure organizational objectives are met. Effective two-way communication is the foundation for transferring facts and thoughts. However, communication should not just flow from bottom to top; instructions typically flow from top to bottom, while suggestions and feedback flow from bottom to top. Therefore, statement III is incorrectly described.

96. (A) Only I is correct
The 2017 survey by Bain & Company found that strategic planning was the most popular management tool among global executives. Contrary to the second statement, mission and vision statements, core competencies, and scenario planning are actually widely used and highly ranked tools in contemporary business practice, reflecting their continued importance in guiding organizational strategy and decision-making.

97. (B) Strategy
SBI Funds Management's decision to shift its focus and integrate internal changes to achieve a top market position represents a strategy. A strategy is a comprehensive master plan that outlines how an organization will achieve its long-term objectives by leveraging its competitive advantages. It involves making fundamental choices about resource allocation and operational priorities to navigate a competitive environment.

98. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Resistance to change is a major challenge because people often prefer the security of their current routines. This preference for the comfort zone makes employees reluctant to adapt to new technologies or techniques. Managers must recognize this psychological barrier and use effective communication and motivation to help staff transition and embrace necessary organizational changes for future growth.

99. (A) P-4, Q-2, R-1, S-3
Consideration behavior focuses on people and rapport. Initiating structure involves planning and aligning roles. Relation-oriented behavior emphasizes mutual respect and trust. Task-oriented behavior defines specific goals and uses models for reward and punishment. These classifications help categorize how different leadership styles prioritize either human relationships or task completion based on established academic research.

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100. (C) Communication
The scenario describes a failure in communication, as instructions are delayed and feedback from subordinates is blocked. Communication is the process of exchanging information and thoughts, and when it breaks down, ideas cannot be translated into action. This disrupts the flow of operations and prevents the organization from functioning as a cohesive unit toward its established goals.

CHAPTER 02
Planning

May/June 2016

1. Who is credited with using the acronym SMART to express the concept of setting goals?s
(A) Peter F. Drucker
(B) Michael Porter
(C) Douglas McGregor
(D) George T. Doran

Oct/Nov 2009

2. Identify the correct statement regarding the forecasting process and its elements.
(A) The first step is to completely discover and study all innumerable factors affecting future events.
(B) Estimating the future course of business relies entirely on intuition and excludes statistical techniques.
(C) Using deviations in previous forecasts to refine procedures and improve accuracy.
(D) Identifying the structure involves analyzing only internal factors, strictly ignoring external strategic factors.

May/June 2023

3. How is Management by Objectives (MBO) defined?
(A) A process where top management sets goals independently and dictates them to subordinates.
(B) A system designed to evaluate the financial feasibility of long-term investments.
(C) A system where management and employees jointly establish, record, and monitor goals.
(D) A technique used to forecast the socio-cultural trends and external impacts on a firm.

Oct/Nov 2018

4. Identify the incorrect statement regarding Contingency Planning.
(A) It begins with the identification of both beneficial and unfavourable events that could derail a strategy.
(B) It involves specifying trigger points and estimating when contingent events are likely to occur.
(C) It guarantees the absolute elimination of unpredictability regarding future events.
(D) It requires ensuring that contingency plans are compatible with current strategy and are financially feasible.

May/June 2007

5. When a decision is made under risk conditions, what characterizes subjective probability?
(A) It is assigned to an expected outcome based purely on historical experience.
(B) It is assigned to an expected outcome on the basis of intuition.
(C) It is measured accurately using precise statistical formulas.
(D) It occurs in a situation where probabilities for various estimated outcomes cannot be assigned at all.

Oct/Nov 2025

6. Which of the following is NOT recognized as one of the three broad scenarios or conditions prevailing for decision-making?
(A) Certainty
(B) Ambiguity
(C) Risk
(D) Uncertainty

May/June 2012

7. Which of the following best defines the process of planning?
(A) The process of predicting the future based on statistical evidence from the past.
(B) The process of thinking before doing, including detailed steps for task execution.
(C) The process of selecting one specific course of action from several distinct alternatives.
(D) The process of establishing organizational structures and evaluating staffing requirements.

Oct/Nov 2014

8. Identify the correct statement regarding Economic Factors in PESTLE analysis.

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(A) They reflect stability in the political environment and level of government intervention.
(B) They include inflation rates, interest rates, tariffs, and the availability of critical labor.
(C) They encompass dominant religions, leisure time, and changing attitudes toward consumerism.
(D) They involve the firm's footprint on its respective environments and paper usage reduction.

May/June 2019

9. Identify the incorrect statement regarding the limitations of Management by Objectives (MBO).
(A) The approach frequently disregards the culture of the organization as it exists today.
(B) Managers will frequently place a greater emphasis on issues pertaining to operations rather than goal setting.
(C) It does not place a strong emphasis on the significance of the environment in which objectives are formulated.
(D) Overdependence on MBO as a comprehensive system can bring problems if the system is not prepared to deal with them.

Oct/Nov 2006

10. What is the duration generally covered by short-term forecasting?
(A) Less than one month for very small tasks.
(B) Ranging from one to six months, within a period less than one year.
(C) Ranging from six months to two years for specific projects.
(D) Exactly one financial year according to standard accounting.

May/June 2021

11. Which of the following is NOT an advantage of making short-term forecasts?
(A) Reduced need for both time and money to complete the project.
(B) Assessing the current state of the company's finances.
(C) Conducting a performance scenario analysis in order to take preventative action.
(D) Systematic leveraging and deleveraging over a prolonged period.

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Oct/Nov 2010

12. What is the definition of forecasting?
(A) The exact science of predicting future events with absolute mathematical certainty.
(B) The formulation of derivative plans based on current internal operational bottlenecks.
(C) Predicting the future based on evidence and data from the past and the present.
(D) The identification of internal weaknesses and performance deficiencies.

May/June 2005

13. Identify the correct statement regarding the advantages of group decisions.
(A) They make the implementation of decisions easier due to a widespread feeling of involvement.
(B) They consistently eliminate all disagreements and indecisions within the organization.
(C) They are generally less time-consuming and less costly than individual decisions.
(D) They automatically prevent any single member from shirking responsibility or dominating the process.

Oct/Nov 2022

14. What is the core conceptual focus of GAP Analysis?
(A) Evaluating final outcomes brought about by the execution of a strategic plan.
(B) Examining historical trade-offs between production standardization and flexibility.
(C) Analyzing and identifying internal weaknesses and performance deficiencies.
(D) Assessing the macro-economic factors affecting short-term and medium-term strategies.

May/June 2018

15. Which of the following is NOT classified as a category of the internal environment of a company based on its resources and assets?
(A) Physical resources like plant and machinery.
(B) Distribution network.
(C) Intangibles, like brand equity and goodwill.
(D) Government economic policy and tariffs.

Oct/Nov 2016

16. What is a contingency plan?
(A) An alternative plan put into effect if certain key events do not occur as expected.
(B) A plan used to prepare for major

catastrophes, natural disasters, and sudden crises.
(C) A primary strategy formulated during the initial opportunity analysis and scanning phase.
(D) A plan designed to eliminate all financial risks associated with various unforeseen events.

May/June 2014

17. Identify the incorrect statement regarding the components of a plan.
(A) Routine daily scheduling of operational workers is defined as the primary macro-component.
(B) Budgets and funding are considered key components of planning.
(C) SWOT analysis is utilized as one of the key components of planning.
(D) Time schedules, core values, mission, and vision are integral plan components.

Oct/Nov 2007

18. What is the typical duration covered by a long-term forecast?
(A) Less than one year
(B) One to three years
(C) Three to five years
(D) Five to ten years

May/June 2025

19. Identify the correct statement regarding Internal Environment Analysis.
(A) Strategic assets are limited solely to the physical plant, machinery, and technology.
(B) The internal environment is strictly assessed using the PESTLE analysis framework.
(C) Physical resources encompass networks and contacts with outside organizations like suppliers and government.
(D) Intangible resources include brand equity, goodwill, and reputation.

Oct/Nov 2019

20. In decision-making, what does the Principle of Definition emphasize?
(A) Correct identification and definition of problems makes the decision-making easier.
(B) A decision should always be based strictly on empirical evidence.
(C) Decision-makers must consider the viewpoints of all involved people with an open mind.
(D) Probabilities must be assigned to each expected outcome based on past experience.

May/June 2009

21. Which of the following is NOT listed as a main criterion for evaluating alternative courses of action?
(A) Cost, profitability, and specific break-even points.
(B) Relying entirely on intuition regarding future success.
(C) Total elimination of all competitor market presence.
(D) Identifying internal strengths and external weaknesses.

Oct/Nov 2011

22. Who coined the phrase "Management by Objectives" (MBO) and in which year?
(A) George T. Doran in 1981
(B) Peter F. Drucker in 1954
(C) Henry Fayol in 1949
(D) F.W. Taylor in 1911

May/June 2010

23. What constitutes the determination of planning premises?
(A) The formulation of sub-plans required to implement the main organizational plan.
(B) The identification of various alternative means to attain specific corporate goals.
(C) The continuous monitoring of the implementation of plans.
(D) The collection of future assumptions, including basic policies and existing plans.

Oct/Nov 2024

24. Identify the incorrect statement regarding the steps in planning.
(A) Opportunity analysis involves understanding circumstances and future prospects.
(B) Developing planning premises involves collecting assumptions derived from future forecasting.
(C) Follow-up and reviewing the plan is a continuous process for ensuring the attainment of business objectives.
(D) Evaluating alternatives is a simple task with limited options and outcomes.

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May/June 2017

25. Identify the correct statement regarding the importance of planning and goal creation.
(A) The SMART acronym stands for Specific, Measurable, Adaptable, Realistic, and Timely.
(B) The SMART acronym stands for Specific, Measurable, Achievable, Realistic, and Timely.
(C) Defining SMART parameters ensures that an organization can operate effectively without a formal plan.
(D) SMART goals are primarily utilized for historical data evaluation rather than setting future targets.

Oct/Nov 2005

26. What is meant by Environmental Analysis?
(A) Examining only the external threats and opportunities currently facing a business entity.
(B) Calculating the exact quantitative impact of government regulations on firm profitability.
(C) Analyzing the internal distribution networks and physical resources exclusively.
(D) Examining all internal and external factors that impact the performance of the firm.

May/June 2020

27. Which of the following is NOT one of the steps that make up the management by objectives (MBO) technique in practice?
(A) Eliminate employee personal goals to ensure alignment with management.
(B) Establish or alter the broad organizational goals for the whole company.
(C) Communicate to employees the goals and priorities of the organization.
(D) Encourage participation from the staff members in the process of setting individual goals.

Oct/Nov 2015

28. The planning process covers multiple fundamental questions regarding a task. Which of the following is typically excluded from the specific questions fundamentally addressed during the planning coverage?
(A) What were the historical profit margins from the previous decade?
(B) What is to be done?
(C) Where it is to be done?
(D) Who will execute?

May/June 2013

29. Identify the incorrect statement regarding the disadvantages of planning.
(A) The formal process of planning requires a significant amount of organizational time.
(B) The detailed process of planning can end up being very expensive for the firm.
(C) The act of planning results in high flexibility and eliminates all rigidity.
(D) Planning could give a false or misleading impression of the organization's strength.

Oct/Nov 2021

30. What are derivative plans in the context of the planning process?
(A) They are the overarching primary goals established at the beginning of the planning process.
(B) They are contingency plans utilized specifically when the primary strategy fails entirely.
(C) They are the final evaluations of the outcomes of a strategic plan.
(D) They are sub-plans formulated to implement the main plan in accordance with the decision.

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May/June 2024

31. What is the correct sequence of steps involved in conducting a PESTLE analysis?
(A) Analyze the data and draw conclusions → Identify the relevance of each factor → Identify and categorize information
(B) Identify the relevance of each factor → Analyze the data and draw conclusions → Identify and categorize information
(C) Identify and categorize information → Identify the relevance of each factor → Analyze the data and draw conclusions
(D) Identify the relevance of each of the PESTLE factors to the firm → Identify and categorize the information for each factor → Analyze the data and draw conclusions

Oct/Nov 2008

32. Which of the following pairs incorrectly matches the category of the internal environment with its example?
(A) Physical resources : Plant and machinery
(B) Human resources : Suppliers, customers,

government, and distributors
(C) Strategic assets : Locational advantage and regulatory protection
(D) Intangibles : Brand equity, goodwill, reputation

May/June 2006

33. Which statement best explains why planning provides direction?
(A) It ensures everyone knows their goals, making the business goal-oriented.
(B) It defines objectives clearly and provides guidelines on channeling efforts.
(C) It addresses questions like what, how, why, where, and when in advance to completely prevent overlapping.
(D) It forces supervisors to evaluate outcomes of strategy execution continuously.

Oct/Nov 2017

34. Evaluate the following statements:
I. The Principle of Evidence states that a decision based on evidence is likely to be better compared to decisions taken on details not backed by evidence.
II. The Principle of Identity emphasizes considering, with an open mind, the viewpoints of all the people involved before taking a final decision.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

May/June 2008

35. Match the items in List I with those in List II using the standardized format below:
List I: (Disadvantage of Planning)
P. Forestalls Activity
Q. Lack of Concern
R. Forestalls Adaptability
S. Hinders Innovativeness
List II: (Specific Effect)
1. Workers carry out activities only as outlined, stifling creative thoughts via trial and error
2. Managers believe solid systems eliminate the need to monitor progress or recognize external shifts
3. Supervisors stick to an arrangement no matter what, even if experience demonstrates it is not working
4. Immersion in getting ready for every possibility leaves no time for execution
(A) P-4, Q-2, R-3, S-1
(B) P-2, Q-4, R-1, S-3
(C) P-4, Q-3, R-2, S-1
(D) P-1, Q-2, R-3, S-4

Oct/Nov 2013

36. Consider the following statements regarding Forecasting:
I. Long-term forecasting covers a period of three to five years and assists in strategic planning and large-scale capital investment.
II. Medium-term forecasts play a crucial role in operational and business budgeting.
III. Short-term forecasting is used for day-to-day cash management and monitoring performance variances.
Which of the statements given above is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2015

37. What is the primary purpose of conducting a SWOT analysis?
(A) Conducting evaluations of internal and external factors simultaneously.
(B) Strictly enforcing trade restrictions to combat external competitors.
(C) To measure subjective probabilities accurately in high-risk decision-making scenarios.
(D) To exclusively forecast the technological shifts expected over a three to five-year span.

Oct/Nov 2012

38. Match the items in List I with those in List II using the standardized format below:
List I: (Forecast Type)
P. Long Term Forecast
Q. Medium Term Forecast
R. Short Term Forecast (Advantage)
S. Short Term Forecast (Disadvantage)
List II: (Associated Feature)
1. Plays a crucial role in operational and business budgeting

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2. Assists in strategic planning and large-scale capital investment
3. Requires precision down to the granular level
4. Maintaining cash reserves and monitoring performance variances

(A) P-1, Q-4, R-2, S-3
(B) P-3, Q-2, R-1, S-4
(C) P-2, Q-3, R-4, S-1
(D) P-2, Q-1, R-4, S-3

May/June 2011

39. Evaluate the following statements regarding group decisions:

I. Group decision making is generally less time-consuming because multiple members can divide the workload of evaluating alternatives.
II. A major disadvantage of group decisions is the potential for disagreements and indecisions resulting in conflicts and blame-games.

(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

Oct/Nov 2020

40. Match the items in List I with those in List II using the standardized format below:

List I: (Element of Planning Importance)

P. Helps Goal Creation
Q. Tackles Uncertainty
R. Discards overlapping and wasteful activities
S. Promotes Innovative Ideas

List II: (Description)

1. Accommodates anticipations of future functions to reduce high risks
2. Addresses chaos in advance to prevent duplication of efforts
3. Requires out-of-the-box thinking to manage operations and beat competition
4. Makes a business goal-oriented as everyone knows about their targets

(A) P-2, Q-3, R-1, S-4
(B) P-3, Q-1, R-4, S-2
(C) P-4, Q-2, R-1, S-3
(D) P-4, Q-1, R-2, S-3

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May/June 2022

41. Consider the following statements regarding the limitations of MBO:

I. It frequently disregards the existing culture of the organization and its working conditions.
II. It places a strong emphasis on the significance of the environment in which objectives are formulated.
III. Managers using MBO might place a greater emphasis on goal setting than on issues pertaining to operations.

Which of the statements given above is/are correct?

(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

Oct/Nov 2023

42. What is the defining characteristic of taking a decision under the condition of "Risk"?

(A) The decision maker knows exactly what is going to happen and precisely forecasts the outcome.
(B) The decision maker feels that probabilities for various estimated outcomes cannot be assigned at all.
(C) Information is partial, and a probability is assigned to estimated outcomes.
(D) The decision is delegated entirely to a large group to avoid individual accountability.

May/June 2023

43. Which of the following pairs correctly matches the PESTLE factor with its corresponding description?

(A) Legal Factors : Dominant religions, leisure time, and age demographics.
(B) Technological Factors : Improving distribution speed and remote innovations.
(C) Economic Factors : Political corruption and specific legislative laws.
(D) Socio-cultural Factors : Inflation rates, tariffs, and exchange rates

Oct/Nov 2009

44. Match the items in List I with those in List II using the standardized format below:

List I: (Characteristic of Group Decision Making)

P. Thorough evaluation
Q. Implement of decisions is easier
R. Time consuming and costly
S. Disagreements and indecisions

List II: (Corresponding Category)

1. Advantage relating to widespread feeling of involvement
2. Disadvantage relating to conflicts and blame-games
3. Advantage relating to thorough assessment of alternatives
4. Disadvantage relating to the need for multiple meetings and data collection

(A) P-1, Q-3, R-2, S-4
(B) P-4, Q-2, R-1, S-3
(C) P-3, Q-2, R-4, S-1
(D) P-3, Q-1, R-4, S-2

May/June 2016

45. Consider the following statements about Contingency Planning:

I. It is designed only for major catastrophes and natural disasters.
II. It involves specifying trigger points and assessing the impact of each contingent event.
III. It is commonly referred to as "Plan B" because it works as an alternative course of action if things do not go as planned.

Which of the statements given above is/are correct?

(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2018

46. Which scenario best describes the disadvantage of planning referred to as "Death by plan"?

(A) When a plan fails entirely due to the lack of available financial resources.
(B) When managers spend so much time planning they cannot execute the plans.
(C) When an organization faces bankruptcy due to external threats not captured in the risk assessment.
(D) When a contingency plan causes unintended derailment of the main strategy.

May/June 2007

47. Evaluate the following statements:

I. GAP Analysis focuses exclusively on evaluating the outcomes brought about by the execution of a strategic plan.
II. Strategy Evaluation is a tool for conducting assessments that gives organizations the ability to analyze and identify internal weaknesses as well as performance deficiencies.

(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

Oct/Nov 2014

48. Match the items in List I with those in List II using the standardized format below:

List I: (PESTLE Factor)

P. Political
Q. Economic
R. Socio-cultural
S. Technological

List II: (Corresponding Example)

1. Interest rates, inflation, and unemployment
2. Increasing the speed of distribution via the Internet
3. Government laws, trade restrictions, and tariffs
4. Lifespan demographics and attitudes toward consumerism

(A) P-1, Q-4, R-2, S-3
(B) P-3, Q-1, R-4, S-2
(C) P-3, Q-4, R-1, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2019

49. Which of the following pairs incorrectly interprets a component of the SMART acronym?

(A) A : Adaptable
(B) S : Specific
(C) M : Measurable
(D) R : Realistic

Oct/Nov 2006

50. Match the items in List I with those in List II using the standardized format below:

List I: (Principle of Decision Making)

P. Principle of Definition
Q. Principle of Evidence
R. Principle of Identity

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S. Objective probability

List II: (Core Idea)

1. Decisions backed by factual details are better
2. Considering viewpoints of all involved people with an open mind
3. Correct identification of exact problems makes work easier
4. Assigned based on past experience

(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-2, R-1, S-4
(C) P-3, Q-1, R-2, S-4
(D) P-2, Q-3, R-4, S-1

May/June 2021

51. Consider the following statements regarding Planning Premises:

I. Planning premises serve as the basis for the activity of planning.
II. They include projections of variables such as current population trends, economic climate, and cost of production.
III. They guarantee that nothing in the foreseeable future remains uncertain.

Which of the statements given above is/are correct?

(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2010

52. What is the correct chronological sequence of the first four steps in the planning process?

(A) Objective Establishment → Opportunity Analysis → Alternatives Identification → Developing Planning Premises
(B) Developing Planning Premises → Opportunity Analysis → Objective Establishment → Alternatives Identification
(C) Opportunity Analysis → Developing Planning Premises → Objective Establishment → Alternatives Identification
(D) Opportunity Analysis → Objective Establishment → Developing Planning Premises → Alternatives Identification

May/June 2005

53. Match the items in List I with those in List II using the standardized format below:

List I: (Decision-Making Condition)

P. Certainty
Q. Risk (Objective probability)
R. Risk (Subjective probability)
S. Uncertainty

List II: (Characteristic)

1. Probability assigned on the basis of intuition
2. No way of measuring the likelihood attached to each estimate
3. Decision maker knows exactly what is going to happen
4. Probability assigned based on past experience

(A) P-4, Q-1, R-3, S-2
(B) P-3, Q-1, R-4, S-2
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-3, R-1, S-4

Oct/Nov 2022

54. Evaluate the following statements:

I. Political factors in PESTLE include government laws, trade restrictions, tariffs, and political stability that leave the banking industry susceptible to political influence.
II. Legal factors reflect whether or not the rule of law is well-established and the costs of regulatory compliance.

(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

May/June 2018

55. Which of the following pairs correctly matches the forecast type with its standard duration?

(A) Long Term Forecast : A duration spanning between one to three years.
(B) Medium Term Forecast : A duration spanning between three to five years.
(C) Short Term Forecast : Less than one year, ranging from one to six months.
(D) Short Term Forecast : One to three years

Oct/Nov 2016

56. What is the primary intent behind specifying trigger points in contingency planning?

(A) Indicating the point at which a backup plan should be put into effect.
(B) Establishing strict performance standards for subordinate appraisals.

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(C) Determining the precise financial return on investment of the strategy.
(D) To evaluate employee objectives during regular face-to-face feedback conversations.

May/June 2014

57. Consider the following statements regarding the steps in planning:
I. Opportunity Analysis entails comprehending the existing circumstances of the available opportunity and its future prospects.
II. Objective Establishment is typically the final step in the planning process.
III. Evaluating Alternatives often benefits from the use of statistical methods and computers.
Which of the statements given above is/are correct?
(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

Oct/Nov 2007

58. Match the items in List I with those in List II using the standardized format below:
List I: (Internal Analysis Concept)
P. GAP Analysis
Q. Strategy Evaluation
R. SWOT Analysis (Strengths)
S. SWOT Analysis (Threats)
List II: (Defining Characteristic)
1. Tasks within your comfort zone that exceeded expectations
2. Processes or activities that have the potential to have a negative effect
3. Process of analyzing outcomes brought about by the execution of a strategic plan
4. Identifies internal weaknesses and performance deficiencies
(A) P-4, Q-3, R-1, S-2
(B) P-3, Q-4, R-2, S-1
(C) P-4, Q-1, R-3, S-2
(D) P-1, Q-2, R-4, S-3

May/June 2025

59. Evaluate the following statements regarding Management by Objectives (MBO):
I. The phrase "management by objective" was coined by Peter F. Drucker and first appeared in his 1954 book.
II. In 1981, George T. Doran used the acronym SMART to express the concept of goal setting in MBO.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

Oct/Nov 2019

60. Match the items in List I with those in List II using the standardized format below:
List I: (MBO Step)
P. Organizational Goal
Q. Employee Objectives
R. Monitoring Performance
S. Appraisal
List II: (Corresponding Action)
1. Establishing individual goals via face-to-face conversation
2. Keeping a close eye on the performance and development of each individual
3. Supervisors deciding provisional targets based on capacity evaluation
4. Regular examination of accomplishments as part of MBO
(A) P-1, Q-3, R-4, S-2
(B) P-3, Q-1, R-2, S-4
(C) P-4, Q-2, R-1, S-3
(D) P-2, Q-4, R-3, S-1

May/June 2009

61. Consider the following statements regarding the disadvantages of planning:
I. It may forestall activity leading to "death by plan".
II. It may lead to a lack of concern among managers if they believe solid systems are already in place.
III. It always encourages middle and lower-level supervisors to abandon plans that are not working.
IV. It hinders innovativeness by making workers focus only on systematic tasks assigned to them.
V. It can be time-consuming and expensive.
Which of the above statement(s) is/are correct?
(A) I, II, IV, and V
(B) I, III, IV, and V

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(C) II, III, IV, and V
(D) I, II, III, and V

Oct/Nov 2011

62. The following question consists of two statements – Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): Planning might hinder innovativeness in an organization.
Reason (R): Employees may get the impression that only completing systematic tasks outlined in the plans is expected of them, preventing engagement in invention via trial and error.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2010

63. Consider the following disadvantages associated with group decisions:
I. It is time consuming and costly.
II. It creates a widespread feeling of involvement, making implementation harder.
III. There can be disagreements and indecisions resulting in conflicts.
IV. There can be no-participation or domination by one or more members.
Which of the above statement(s) correctly identify disadvantages of group decisions?
(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, and IV

Oct/Nov 2024

64. Read the following scenario regarding Zenith Financial Services and answer the question that follows.
Zenith Financial Services decides to adopt a new management approach. The CEO establishes an overarching organizational goal. Managers then hold face-to-face conferences with their subordinates to allow employees to define their own measurable personal goals aligned with the corporate goal. The management approach adopted is known as:
(A) Centralized Directive Management
(B) Contingency Planning
(C) Management by Objectives (MBO)
(D) PESTLE Analysis Framework

May/June 2017

65. The following question consists of two statements – Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): The Management by Objectives (MBO) approach strongly encourages middle and lower-level supervisors to avoid participating in goal setting.
Reason (R): In MBO, employees are allowed to define measurable personal goals in accordance with the corporate goal.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2005

66. Read the following scenario regarding Zenith Financial Services and answer the question that follows.
Why is continuous feedback a very important step in the process adopted by Zenith Financial Services?
(A) It allows employees to track and improve actions via measurable goals.
(B) It eliminates the need to measure employee performance mathematically.
(C) It provides an excuse to sanction employees who do not meet targets.
(D) It replaces the need for formal evaluation or performance appraisals.

May/June 2020

67. Consider the following criteria for evaluating alternative courses of action:
I. Cost, Profitability, and Break-even Point.
II. Market, Sales potential, and Competitive reaction.
III. Intuition about success.
IV. Ability to avoid all future tax liabilities.
Which of the above are valid criteria for

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evaluating alternatives?
(A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, and IV only

Oct/Nov 2015

68. The following question consists of two statements – Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): Strategy evaluation is a useful model for conducting assessments that gives organizations the ability to analyze and identify internal weaknesses as well as performance deficiencies.
Reason (R): The process of analyzing the outcomes brought about by the execution of a strategic plan is referred to as strategy evaluation.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2013

69. Read the following scenario regarding Apex Bank and answer the question that follows.
During Apex Bank's environmental scanning, they heavily consider the recent data privacy regulations passed by the central government. This consideration primarily falls under which factor of the PESTLE analysis?
(A) Legal Factors
(B) Economic Factors
(C) Technological Factors
(D) Socio-cultural Factors

Oct/Nov 2021

70. Consider the following points:
I. Helps Goal Creation
II. Provides Direction
III. Tackles Uncertainty
IV. Promotes Innovative Ideas
V. Eliminates all competitive threats immediately
Which of the above correctly highlight the importance of planning?
(A) I, II, III, and IV
(B) I, II, IV, and V
(C) II, III, IV, and V
(D) I, III, IV, and V

May/June 2024

71. Read the following scenario regarding Stellar Manufacturing and answer the question that follows.
The condition "if the imports are delayed by more than two weeks" utilized by Stellar Manufacturing acts as what component of a contingency plan?
(A) Trigger point
(B) Post-evaluation metric
(C) Primary strategy
(D) Feedback overview

Oct/Nov 2008

72. The internal environment of a company is classified into broad categories based on its resources and assets. Consider the following:
I. Physical resources like plant and machinery.
II. Financial resources.
III. Possession of strategic assets like locational advantage.
IV. Socio-cultural factors like lifespan demographics.
Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) I, II, and IV only
(C) II, III, and IV only
(D) I, III, and IV only

May/June 2006

73. The following question consists of two statements – Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): Subjective probability is assigned on the basis of intuition rather than historical evidence.
Reason (R): When a probability estimate is assigned to an expected outcome based on past experience, it is called objective probability.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

NODIA

Oct/Nov 2017

74. The following question consists of two statements – Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): Contingency plans are commonly referred to as "Plan B".

Reason (R): They are alternative plans that can be put into effect if certain key events do not occur as expected.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2008

75. Read the following scenario regarding Zenith Financial Services and answer the question that follows.

After a year, managers at Zenith Financial Services notice that the system has resulted in a massive increase in paperwork and that employees feel constant pressure. The massive increase in paperwork is recognized as a:

(A) Core advantage of MBO
(B) Key concept of Contingency Planning
(C) Principle of Evidence
(D) Disadvantage of MBO

Oct/Nov 2013

76. Consider the following statements regarding the disadvantages of MBO:

I. The process of setting goals can be time-consuming.
II. It reduces the amount of paperwork an organization generates.
III. Goals can become out of date and dampen employees' initiative.
IV. It is an approach based on rewards and sanctions.

Which of the above statement(s) is/are correct?

(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, and IV

May/June 2015

77. Read the following scenario regarding Apex Bank and answer the question that follows.

Apex Bank sets a target to "onboard 1 million new rural customers in 12 months". This is an example of establishing which type of goal?

(A) Subjective goal
(B) Derivative goal
(C) Open-ended objective
(D) SMART goal

Oct/Nov 2012

78. Consider the following steps:

I. Opportunity Analysis
II. Developing Planning Premises
III. Evaluating Alternatives
IV. Selecting the Best Alternative
V. Conducting PESTLE Analysis directly as a mandatory step

Which of the above are recognized as distinct steps in the planning process?

(A) I, II, III, and IV
(B) I, II, IV, and V
(C) II, III, IV, and V
(D) I, III, IV, and V

May/June 2011

79. The following question consists of two statements – Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): MBO requires only oral communication of goals and eliminates the need for detailed performance appraisals.

Reason (R): The MBO programme requires elaborate written goals, careful communication of goals, and detailed performance appraisals, increasing paperwork.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2020

80. The following question consists of two statements – Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

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Assertion (A): Group decision making is always a rapid and inexpensive process compared to individual decision making.
Reason (R): When a group makes a decision, the alternatives are evaluated more thoroughly compared to when individuals take decisions.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2022

81. Read the following scenario regarding Stellar Manufacturing and answer the question that follows.
Stellar Manufacturing produces automotive parts. While preparing their annual plans, they design a backup action to source materials from a local vendor at a 15% higher cost if imports are delayed by more than two weeks due to global supply chain disruptions. This backup action is an example of:
(A) A Derivative Plan
(B) A Strategy Evaluation
(C) A Contingency Plan
(D) An Opportunity Analysis

Oct/Nov 2023

82. Consider the following statements regarding the advantages of planning:
I. It helps in the coordination of various activities.
II. It aids in the optimisation of resources.
III. It establishes execution principles utilizing milestones.
IV. It reduces the need for controlling functions.
V. It lessens the likelihood of risk and provides inspirations and responsibilities.
Which of the above statement(s) correctly represents the advantages of planning?
(A) I, II, III, and IV
(B) I, II, III, and V
(C) II, III, IV, and V
(D) I, III, IV, and V

May/June 2005

83. The following question consists of two statements – Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): Planning tackles uncertainty by making predictions with the help of existing information.
Reason (R): If the planning process anticipates some risk or future losses, it avoids the risk and creates another path to attain anticipated goals.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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Oct/Nov 2025

84. Read the following scenario regarding Apex Bank and answer the question that follows.
Apex Bank also considers the shifting consumer attitude towards a seamless banking experience without requiring direct assistance from bank staff. This falls under which PESTLE factor?
(A) Political Factors
(B) Economic Factors
(C) Socio-cultural Factors
(D) Environmental Factors

May/June 2012

85. The following question consists of two statements – Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): Under the conditions of Uncertainty, there is no way of measuring the likelihood attached to each estimated outcome.
Reason (R): Information is completely available, and the decision maker knows exactly what is going to happen.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2014

86. Consider the following list:
I. Cost effectiveness

II. Easy framework
III. Deep understanding
IV. Development alertness
Which of the above are recognized as advantages of PESTLE analysis?
(A) I, II, and III only
(B) I, II, and IV only
(C) II, III, and IV only
(D) I, II, III, and IV

May/June 2019

87. Read the following scenario regarding Zenith Financial Services and answer the question that follows.
The face-to-face conferences at Zenith Financial Services where subordinates define their own measurable personal goals fulfill which step in the typical MBO process?
(A) Evaluate and reward progress
(B) Participation from staff members in setting individual goals.
(C) Identify reasons for shortfall
(D) Establishing new corporate strategies for the coming fiscal year.

Oct/Nov 2006

88. Consider the following list:
I. Objectives/Goals
II. Policies/Overviews
III. Procedures/Directions/Rules
IV. Budgets/Funding
V. Time Schedule
Which of the above are recognized as key components of planning?
(A) I, II, III, and IV
(B) I, III, IV, and V
(C) II, III, IV, and V
(D) I, II, III, IV, and V

May/June 2021

89. Read the following scenario regarding Apex Bank and answer the question that follows.
Apex Bank is launching a new mobile banking application. The top management initiates the planning process. They first analyze the growing internet penetration and smartphone usage among the rural population to base their business plan. This action represents which initial step in the planning process?
(A) Developing Planning Premises
(B) Opportunity Analysis
(C) Evaluating Alternatives
(D) Formulating Derivative Plan

Oct/Nov 2010

90. The following question consists of two statements – Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): Decisions relating to routine matters are normally delegated to middle and lower-level management.
Reason (R): Top management concentrates on crucial and strategic decisions and formulating broad policies.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2005

91. Read the following scenario regarding OmniCorp and answer the question that follows.
OmniCorp wants to enter a new market. Before doing so, the management conducts a comprehensive review. First, they evaluate their brand equity, goodwill, and current distribution network. This evaluation is part of its:
(A) External PESTLE Analysis
(B) Internal Environment Analysis
(C) Strategy Evaluation
(D) Medium-term Forecasting

Oct/Nov 2022

92. Read the following scenario regarding Nexus Bank and answer the question that follows.
The Board of Directors of Nexus Bank is considering whether to acquire a smaller regional bank. Because of the magnitude of the decision, the entire board forms a committee to thoroughly evaluate the alternatives. The formation of the committee to evaluate the acquisition represents:
(A) Subordinate Appraisal
(B) The Principle of Definition
(C) Decision Making by Groups
(D) Short-term forecasting

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May/June 2018

93. Read the following scenario regarding Stellar Manufacturing and answer the question that follows.
The finance department of Stellar Manufacturing prepares a projection of the company's monetary requirements and investable surplus for the next four years to aid in systematic leveraging. This projection is classified as a:
(A) Short Term Forecast
(B) Medium Term Forecast
(C) Operational Budgeting Forecast
(D) Long Term Forecast

Oct/Nov 2016

94. Read the following scenario regarding OmniCorp and answer the question that follows.
OmniCorp uses a specific assessment tool to identify current performance deficiencies compared to their projected future position. This specific assessment tool is:
(A) MBO Appraisal
(B) Strategy Evaluation
(C) GAP Analysis
(D) Contingency Trigger Analysis

May/June 2014

95. Read the following scenario regarding Nexus Bank and answer the question that follows.
Since complete data on the target bank's future non-performing assets is unavailable, the committee relies on past historical data to assign a probability estimate to the likelihood of the acquisition's success. This scenario represents which condition for decision making?
(A) Objective Probability under Risk
(B) Certainty
(C) Subjective Probability under Risk
(D) Absolute Uncertainty

Oct/Nov 2007

96. Read the following scenario regarding Stellar Manufacturing and answer the question that follows.
Which of the following is an advantage of the four-year projection prepared by Stellar's finance department?
(A) Assessing the current state of company finances on a granular level.
(B) Improved asset management and earnings via cash reserve maintenance.
(C) Reducing the time and money required for short-term operational work.
(D) Immediate reduction of all supply chain risks.

May/June 2025

97. Read the following scenario regarding OmniCorp and answer the question that follows.
OmniCorp's brand equity and goodwill evaluated during the comprehensive review are classified as which type of internal resources?
(A) Intangibles
(B) Physical resources
(C) Financial resources
(D) Human resources

Oct/Nov 2019

98. Read the following scenario regarding Nexus Bank and answer the question that follows.
If the board members of Nexus Bank considered the viewpoints of all the people involved with an open mind before taking the final decision, they would be applying the:
(A) Principle of Evidence
(B) Principle of Identity
(C) Principle of Definition
(D) Principle of Execution

May/June 2009

99. Read the following scenario regarding Nexus Bank and answer the question that follows.
The committee meetings at Nexus Bank are dragged out over months as different directors have conflicting viewpoints, leading to blame-games. This scenario illustrates which disadvantage?
(A) Disadvantages of Long-term forecasting
(B) Disadvantages of Contingency Planning
(C) Loss of execution time due to the "death by plan" phenomenon.
(D) Disagreements and indecisions occurring during group decisions.

Oct/Nov 2011

100. Read the following scenario regarding OmniCorp and answer the question that follows.
When OmniCorp lists out tasks their team does noticeably better than everyone else alongside external factors that have the potential to confer competitive advantages, they are identifying their:
(A) Opportunities
(B) Threats
(C) Weaknesses
(D) Strengths

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ANSWERS

1. (D) George T. Doran
The concept of Management by Objectives relies on setting specific targets. George T. Doran is recognized for introducing the SMART acronym in 1981 to help managers define these goals effectively. This framework ensures that objectives are clearly stated and measurable, which facilitates better tracking of performance and alignment with the broader organizational strategy and vision.

2. (C) Using deviations in previous forecasts to refine procedures and improve accuracy.
The forecasting process involves several structured steps to predict future business conditions. A critical element of this process is the continuous refinement of procedures. By identifying and analyzing deviations found in previous forecasts, organizations can adjust their methods to improve future accuracy. This iterative approach helps managers learn from past errors and enhance the reliability of predictions.

3. (C) A system where management and employees jointly establish, record, and monitor goals.
Management by Objectives is a participative management system. It functions by having supervisors and employees collaborate to define specific goals for the individual. These goals are then recorded and monitored over time. This joint effort ensures that employees are committed to the objectives and understand how their personal performance contributes directly to the overall success of the organization.

4. (C) It guarantees the absolute elimination of unpredictability regarding future events.
Contingency planning involves preparing for potential future events that could impact strategic success. While it helps organizations manage risks by identifying trigger points and alternative actions, it cannot provide an absolute guarantee of eliminating unpredictability. The future remains inherently uncertain, and planning merely provides a structured way to react to unforeseen circumstances, rather than removing all possible risks.

5. (B) It is assigned to an expected outcome on the basis of intuition.
Under risk conditions, decision-makers assign probabilities to potential outcomes. Subjective probability is specifically based on the individual's intuition, personal judgment, or beliefs rather than hard historical data. This approach is often used when statistical evidence is unavailable, allowing managers to use their expertise to estimate the likelihood of various events occurring within a specific business context or environment.

6. (B) Ambiguity
Decision-making typically occurs under three primary conditions: certainty, risk, and uncertainty. Certainty involves full knowledge of outcomes, risk uses known probabilities, and uncertainty lacks any statistical basis for prediction. Ambiguity is not considered one of these broad categories in this specific framework. Understanding these conditions helps managers choose appropriate tools and techniques for evaluating alternatives and making informed choices.

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(B) The process of thinking before doing, including detailed steps for task execution.
Planning is a fundamental management function characterized as thinking before doing. It involves the systematic determination of future actions to achieve desired goals. By establishing detailed steps for task execution in advance, planning bridges the gap between the current state and a desired future position. This process provides a roadmap that guides organizational efforts and resource allocation effectively.

8. (B) They include inflation rates, interest rates, tariffs, and the availability of critical labor.
In a PESTLE analysis, economic factors represent the external financial environment impacting an organization. These include variables such as inflation rates, interest rates, and trade tariffs. Additionally, the availability and cost of critical labor are considered economic elements. Monitoring these factors helps businesses

anticipate shifts in purchasing power and operational costs, which is essential for effective long-term strategic planning.

9. (B) Managers will frequently place a greater emphasis on issues pertaining to operations rather than goal setting.
Management by Objectives has several recognized limitations. While it focuses heavily on goal setting, it is incorrect to suggest that managers using this system prioritize operational issues over objectives. In practice, the opposite often occurs, where the focus on reaching specific targets leads to neglecting day-to-day operations or the underlying organizational culture and the environmental context of goals.

10. (B) Ranging from one to six months, within a period less than one year.
Short-term forecasting is focused on immediate operational needs. It typically covers a duration ranging from one to six months, always staying within a period of less than one year. This type of forecasting is essential for managing daily functions, such as inventory control and cash flow monitoring, allowing for quick adjustments based on current market trends and performance.

11. (D) Systematic leveraging and deleveraging over a prolonged period.
Short-term forecasts offer several operational benefits, such as assessing current financial health and conducting scenario analysis to take preventative action. However, systematic leveraging and deleveraging over a prolonged period is associated with long-term strategic financial planning rather than short-term forecasting. Short-term tools are designed for immediate adjustments and lack the broad scope required for multi-year financial structural changes.

12. (C) Predicting the future based on evidence and data from the past and the present.
Forecasting is the process of predicting future events based on evidence and data from the past and present. It provides the necessary assumptions upon which plans are built. By analyzing historical trends and current conditions, managers can make informed estimates about future business environments. This practice reduces uncertainty and provides a factual basis for setting organizational goals and strategies.

13. (A) They make the implementation of decisions easier due to a widespread feeling of involvement.
Group decision-making involves multiple individuals collaborating to reach a conclusion. A significant advantage of this approach is that implementation becomes easier. When employees are involved in the process, they feel a sense of ownership and commitment to the outcome. This widespread feeling of involvement reduces resistance to change and ensures that the decision is executed more effectively.

14. (C) Analyzing and identifying internal weaknesses and performance deficiencies.
GAP Analysis is an internal assessment tool used to evaluate the difference between an organization's current performance and its desired future state. Its core focus is on identifying internal weaknesses and performance deficiencies. By pinpointing these gaps, management can develop targeted strategies to improve operations and ensure that the company possesses the necessary resources to achieve its strategic objectives.

15. (D) Government economic policy and tariffs.
The internal environment of a company consists of factors within its control, such as physical resources, distribution networks, and intangible assets like brand equity. In contrast, government economic policy and tariffs are external factors. These elements belong to the macro-environment, specifically within the political and economic categories of a PESTLE analysis, rather than being part of the firm's internal assets.

16. (A) An alternative plan put into effect if certain key events do not occur as expected.
A contingency plan is an alternative course of action designed to be implemented if specific key events do not occur as originally expected. Often called "Plan B," it provides a backup strategy for handling unfavorable or beneficial deviations from the primary plan. This approach ensures that the organization remains resilient and can respond quickly to changes in the environment.

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17. (A) Routine daily scheduling of operational workers is defined as the primary macro-component.
Planning involves several key components, including budgets, time schedules, mission statements, and SWOT analysis. It is incorrect to define routine daily scheduling of operational workers as a primary macro-component of a plan. Macro-components usually refer to high-level strategic elements like core values and vision, while daily scheduling is a low-level, micro-operational task handled during the execution phase.

18. (C) Three to five years
Long-term forecasting is a strategic tool used for significant capital investments and large-scale planning. It typically covers a duration of three to five years. This extended timeframe allows organizations to anticipate major market shifts, technological changes, and economic trends. By looking several years ahead, managers can align their resources and capabilities with the long-term vision and goals of the company.

19. (D) Intangible resources include brand equity, goodwill, and reputation.
Internal environment analysis examines the resources and assets owned by an organization. Intangible resources are a critical part of this assessment, including elements like brand equity, goodwill, and reputation. Unlike physical assets, these resources provide a competitive advantage through market perception and historical performance. Recognizing these intangibles is essential for understanding the firm's true strength and its potential for growth.

20. (A) Correct identification and definition of problems makes the decision-making easier.
The Principle of Definition is a core concept in effective decision-making. it emphasizes that correctly identifying and defining the problem is the most crucial step. When a problem is clearly understood, the subsequent process of gathering information and evaluating alternatives becomes much more efficient. This clarity prevents the organization from wasting resources on solving the wrong issues or symptoms.

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21. (C) Total elimination of all competitor market presence.
When evaluating alternative courses of action, managers use various criteria like cost, profitability, and market potential. They also consider internal strengths and external weaknesses. However, the total elimination of all competitor market presence is not a standard or realistic criterion for evaluating alternatives. Strategic planning focuses on competitive advantage and sustainable growth rather than the impossible goal of total monopoly.

22. (B) Peter F. Drucker in 1954
Peter F. Drucker is the management expert who coined the phrase "Management by Objectives." He introduced this concept in his influential 1954 book, "The Practice of Management." This approach shifted the focus from activities to results, emphasizing the importance of setting clear, measurable goals for every manager and employee within an organization to ensure overall strategic alignment and success.

23. (D) The collection of future assumptions, including basic policies and existing plans.
Planning premises are the foundational assumptions upon which future plans are built. They involve the collection of various future assumptions, including basic policies, existing plans, and forecasts about the external environment. By establishing these premises, managers create a consistent framework for decision-making. This ensures that all sub-plans and strategies are based on the same set of expectations and data.

24. (D) Evaluating alternatives is a simple task with limited options and outcomes.
The planning process consists of several complex steps, such as opportunity analysis and developing premises. Evaluating alternatives is a sophisticated task that often requires the use of statistical methods and computer models to compare various options. It is incorrect to describe it as a simple task with limited outcomes, as it requires deep analysis of costs, risks, and potential returns.

25. (B) The SMART acronym stands for Specific, Measurable, Achievable, Realistic, and Timely.
SMART is a widely used acronym in goal setting to ensure objectives are effective. It stands for Specific, Measurable, Achievable, Realistic, and Timely. Each component helps managers create targets that are clear and attainable. By following these parameters, organizations can better track progress and provide employees with a clear understanding of what is required to achieve individual and corporate success.

26. (D) Examining all internal and external factors that impact the performance of the firm.
Environmental analysis is a comprehensive process used by organizations to understand their operating context. It involves examining all internal factors, such as resources and capabilities, as well as external factors, including economic and political shifts. This dual focus allows managers to identify strengths, weaknesses, opportunities, and threats. By analyzing both environments, the firm can develop strategies that are better aligned.

27. (A) Eliminate employee personal goals to ensure alignment with management.
The Management by Objectives technique involves several participative steps, such as establishing organizational goals and communicating priorities. It also encourages staff to help set their own individual goals. Eliminating employee personal goals is not a step in this process; instead, the system aims to align personal objectives with organizational ones to increase motivation, commitment, and overall performance across the firm.

28. (A) What were the historical profit margins from the previous decade?
Planning is a forward-looking process that addresses fundamental questions about a task, such as what needs to be done, where it will occur, and who will execute it. While historical data informs planning, the specific question of what historical profit margins were from a previous decade is typically excluded from the core prospective questions addressed during the planning process itself.

29. (C) The act of planning results in high flexibility and eliminates all rigidity.
Planning has several disadvantages, including being time-consuming and expensive. It can also create a false impression of organizational strength. However, it is incorrect to say that planning results in high flexibility and eliminates all rigidity. In fact, a major criticism of formal planning is that it can create rigidity, making it difficult for managers to adapt to sudden changes.

30. (D) They are the sub-plans formulated to implement the main plan in accordance with the decision.
Derivative plans are essential sub-plans created during the planning process. Once a main plan is decided upon, these secondary plans are formulated to support its implementation. They cover specific areas like hiring, purchasing, or production schedules. These plans translate broad strategic goals into actionable steps, ensuring that every department and level of the organization contributes to the primary objective.

31. (D) Identify the relevance of each of the PESTLE factors to the firm → Identify and categorize the information for each factor → Analyze the data and draw conclusions
Conducting a PESTLE analysis requires a logical sequence of steps. First, the organization must identify the relevance of each factor to the firm. Next, it identifies and categorizes specific information for every factor. Finally, the data is analyzed to draw meaningful conclusions. This systematic approach ensures that the external environment is thoroughly understood before strategic decisions are made.

32. (B) Human resources : Suppliers, customers, government, and distributors
Internal environment categories must be correctly matched with their components. Physical resources include plant and machinery, while intangibles cover brand equity. It is incorrect to classify suppliers, customers, and government as human resources within the internal environment. These groups are external stakeholders. Internal human resources refer specifically to the employees, managers, and the skills possessed by the people within the organization.

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33. (B) It defines objectives clearly and provides guidelines on channeling efforts.
Planning provides direction by defining organizational objectives clearly. It offers guidelines on how to channel efforts and resources toward achieving these specific goals. By making everyone aware of the desired outcomes in advance, planning ensures that all members of the organization are working in a unified manner. This clarity helps minimize confusion and keeps the business focused on its strategic targets.

34. (A) Both Statement I and Statement II are correct.
The Principles of Evidence and Identity are both vital for effective decision-making. The Principle of Evidence suggests that decisions backed by factual data are generally superior to those based on unsubstantiated details. The Principle of Identity emphasizes the importance of considering various viewpoints with an open mind. Together, these principles encourage a balanced, objective, and inclusive approach to organizational choices.

35. (A) P-4, Q-2, R-3, S-1
Planning disadvantages have specific effects on an organization. Forestalling activity occurs when preparation leaves no time for execution. A lack of concern happens when managers trust systems too much and ignore external changes. Forestalling adaptability means sticking to plans despite evidence they are failing. Finally, hindering innovativeness occurs when workers only follow outlined tasks, which prevents creative thinking and invention.

36. (D) I, II, and III
Forecasting is divided into three categories based on duration. Long-term forecasting covers three to five years for strategic planning. Medium-term forecasts are used for operational and business budgeting. Short-term forecasting is essential for daily cash management and monitoring performance variances. All these types are correct and necessary for a comprehensive planning system that addresses both strategic and operational needs.

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37. (A) Conducting evaluations of internal and external factors simultaneously.
The primary purpose of conducting a SWOT analysis is to perform a comprehensive evaluation of both internal and external factors. This tool allows managers to identify internal strengths and weaknesses while simultaneously scanning the external environment for opportunities and threats. By integrating these perspectives, organizations can develop strategies that leverage their capabilities to take advantage of market conditions and mitigate risks.

38. (D) P-2, Q-1, R-4, S-3
Different forecast types serve specific roles in business management. Long-term forecasts assist in strategic planning and capital investments. Medium-term forecasts are essential for operational budgeting. Short-term forecasts are used for maintaining cash reserves and monitoring performance. However, short-term forecasting can be disadvantaged by the requirement for extreme precision at a granular level, which increases the difficulty and cost of data collection.

39. (D) Statement I is incorrect, but Statement II is correct.
Group decision-making has distinct characteristics compared to individual processes. It is incorrect to claim it is less time-consuming; in fact, it is usually more time-consuming because multiple members must collaborate. However, a significant disadvantage is the potential for disagreements and indecisions. These conflicts can lead to blame-games among members, especially when a decision does not lead to the expected results.

40. (D) P-4, Q-1, R-2, S-3
Planning is important for several reasons. It helps goal creation by making the business goal-oriented. It tackles uncertainty by accommodating anticipations of the future to reduce risk. It discards overlapping and wasteful activities by addressing potential chaos in advance to prevent duplication. Additionally, planning promotes innovative ideas by requiring out-of-the-box thinking to manage complex operations and beat the competition.

41. (B) I and III only
Management by Objectives faces specific criticisms. It often disregards the existing organizational culture and working conditions, focusing solely on the achievement of targets. Furthermore, managers may place more emphasis on the actual goal-setting process than on the practical operational issues required to reach those goals. However, MBO is often criticized for not placing enough emphasis on the formulation environment.

42. (C) Information is partial, and a probability is assigned to estimated outcomes.
Making a decision under the condition of risk is characterized by having partial information. In this scenario, the decision-maker cannot predict the outcome with certainty but can assign a probability to various estimated results. This probability can be objective, based on historical data, or subjective, based on intuition. This differs from uncertainty, where no probabilities can be reasonably assigned.

43. (B) Technological Factors : Improving distribution speed and remote innovations.
PESTLE analysis categorizes external factors that affect a firm. Technological factors include innovations that impact operations, such as increasing distribution speed via the internet and remote work technologies. Inflation and tariffs are economic, while demographics are socio-cultural. Identifying technological shifts is crucial for staying competitive, as these changes can rapidly alter the efficiency and reach of a company's distribution network.

44. (D) P-3, Q-1, R-4, S-2
Group decision-making involves several advantages and disadvantages. A thorough evaluation of alternatives is a key advantage because multiple perspectives are considered. Implementation is easier when there is a widespread feeling of involvement. On the negative side, the process is time-consuming and costly due to the need for meetings. Disagreements and indecisions are also common disadvantages that can lead to conflicts.

45. (B) II and III only
Contingency planning is a strategic tool often called "Plan B." It involves specifying trigger points to determine when a backup plan should be activated. This process also requires assessing the potential impact of contingent events. It is not limited to major catastrophes; it is used for any key event that might deviate from expectations, ensuring the organization remains flexible and responsive.

46. (B) When managers spend so much time planning they cannot execute the plans.
"Death by plan" is a specific disadvantage where the planning process itself becomes a hindrance. It occurs when managers spend an excessive amount of time and organizational resources on the formal aspects of planning. As a result, they are unable to execute the plans effectively. This immersion in preparation leaves no room for action, ultimately paralyzing the firm's operations.

47. (B) Both Statement I and Statement II are incorrect.
GAP analysis and strategy evaluation are distinct assessment tools. GAP analysis identifies the difference between current performance and desired future goals, often highlighting weaknesses. Strategy evaluation involves analyzing the actual outcomes of an executed strategic plan. Neither is limited exclusively to one function, but they are different processes. Both statements provided were incorrect regarding their specific definitions and primary focuses.

48. (B) P-3, Q-1, R-4, S-2
Each PESTLE factor corresponds to specific external influences. Political factors include government laws and trade restrictions. Economic factors encompass variables like interest rates and inflation. Socio-cultural factors involve demographics and consumer attitudes. Technological factors are represented by innovations like internet-based distribution. Correctly matching these factors allows an organization to systematically scan and understand the various dimensions of its macro-environment.

49. (A) A : Adaptable
The SMART acronym is a framework for setting effective objectives. "S" stands for specific, "M" for measurable, "R" for realistic, and "T" for

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timely. The letter "A" stands for achievable, not adaptable. Using achievable goals ensures that employees remain motivated and that targets are within reach, preventing the frustration that occurs when objectives are set at an impossible level.

50. (C) P-3, Q-1, R-2, S-4
Decision-making principles guide the process of choosing between alternatives. The Principle of Definition involves correctly identifying the problem. The Principle of Evidence stresses using factual details to back choices. The Principle of Identity encourages considering all viewpoints with an open mind. Finally, objective probability is a measure of likelihood assigned based on past historical experience and statistical data.

51. (A) I and II only
Planning premises provide the essential foundation for all planning activities. They consist of projections about future variables, such as economic climate, population trends, and production costs. While they help managers make informed assumptions, they cannot guarantee that everything in the future will be certain. Uncertainty is a permanent feature of the business environment, and premises only help manage it.

52. (D) Opportunity Analysis → Objective Establishment → Developing Planning Premises → Alternatives Identification
The planning process follows a logical sequence. It begins with opportunity analysis to understand the current situation. This is followed by establishing objectives to define what needs to be achieved. Next, managers develop planning premises by gathering assumptions about the future. Only after these steps are completed can they identify and evaluate various alternative courses of action for implementation.

53. (C) P-3, Q-4, R-1, S-2
Decision-making occurs under different conditions. Certainty means the outcome is known exactly. Risk with objective probability uses past experience to assign likelihoods. Risk with subjective probability relies on intuition for its estimates. Uncertainty occurs when there is no way to measure the likelihood of various outcomes. Recognizing these conditions helps managers choose the appropriate level of analysis for each decision.

54. (A) Both Statement I and Statement II are correct.
In PESTLE analysis, political and legal factors are closely related but distinct. Political factors include government stability, trade restrictions, and tariffs that impact industries. Legal factors focus on the established rule of law and the specific costs associated with regulatory compliance. Both factors are correct as they represent external influences that organizations must monitor to ensure long-term stability and success.

55. (C) Short Term Forecast : Less than one year, ranging from one to six months.
Forecasting types are defined by their specific time horizons. Short-term forecasts cover less than one year and typically range from one to six months. They are used for immediate operational needs like cash flow management. Medium-term forecasts usually cover one to three years, while long-term forecasts extend from three to five years, focusing on large-scale strategic investments and capital.

56. (A) Indicating the point at which a backup plan should be put into effect.
Trigger points are a vital component of contingency planning. Their primary purpose is to provide a clear indicator of when a backup or alternative plan should be put into effect. By pre-defining these points, managers can respond quickly and decisively to changing circumstances without the delay of further analysis, ensuring the organization maintains its momentum even during disruptions.

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57. (B) I and III only
The planning process involves distinct analytical steps. Opportunity analysis is one of the initial steps, focusing on understanding current circumstances and future prospects. Evaluating alternatives is a later stage where various options are compared, often utilizing computers and statistical methods for precision. Establishing objectives is an early step, not the final one, as it defines the targets for everything else.

58. (A) P-4, Q-3, R-1, S-2
Internal analysis concepts serve different evaluative purposes. GAP analysis identifies performance deficiencies and weaknesses. Strategy evaluation is the process of analyzing actual outcomes resulting from a plan. In a SWOT analysis, strengths are the tasks performed exceptionally well, while threats are external processes or activities that could have a negative effect. Correctly applying these concepts is essential for strategic management.

59. (A) Both Statement I and Statement II are correct.
The history of Management by Objectives involves two key figures. Peter F. Drucker coined the term in his 1954 book to emphasize results-oriented management. Later, in 1981, George T. Doran introduced the SMART acronym to provide a practical framework for expressing these goals. Both contributions are correct and fundamental to how modern organizations set and manage their performance targets.

60. (B) P-3, Q-1, R-2, S-4
The MBO process includes several specific actions. Setting organizational goals involves supervisors deciding on provisional targets. Individual employee objectives are established through face-to-face conferences. Monitoring performance requires keeping a close eye on the development of each person. Finally, appraisals involve a regular examination of accomplishments. These steps ensure that the management system is participative, results-oriented, and provides continuous feedback.

61. (A) I, II, IV, and V
Planning has several disadvantages that can impact organizational effectiveness. It can forestall activity through excessive preparation and lead to a lack of concern among managers who over-rely on systems. It also hinders innovativeness by focusing workers on systematic tasks and can be both time-consuming and expensive. It does not, however, always encourage supervisors to abandon failing plans.

62. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Planning can sometimes hinder innovativeness within an organization. This occurs because employees may feel that they are only expected to complete the specific, systematic tasks outlined in the plans. This perception prevents them from engaging in creative thinking or invention through trial and error. Therefore, both the assertion and the reason are true, and the reason explains the phenomenon.

63. (B) I, III, and IV
Group decisions have several disadvantages that managers must consider. The process is inherently time-consuming and costly because it requires multiple meetings. Additionally, the diversity of opinions can lead to disagreements and indecision, which often result in organizational conflict. Furthermore, there is a risk of non-participation or domination by certain members, which undermines the collaborative nature of the process.

64. (C) Management by Objectives (MBO)
Management by Objectives is the specific approach where a CEO establishes broad goals and then collaborates with subordinates. In this system, employees define their own measurable personal goals that align with the corporate objectives during face-to-face conferences. This participative method ensures that everyone understands their targets and is motivated to achieve them, fostering a goal-oriented culture within the organization.

65. (D) Assertion (A) is false, but Reason (R) is true.
Management by Objectives is a participative system that allows employees to define their own measurable goals. Therefore, it is incorrect to say that it encourages supervisors to avoid participating in goal setting. In fact, MBO thrives on the active participation of both managers and employees. While the reason regarding personal goals is true, the assertion about avoiding participation is false.

66. (A) It allows employees to track and improve actions via measurable goals.
In the Management by Objectives process, continuous feedback is a crucial step. It provides employees with regular information about their progress, allowing them to track their performance against measurable goals. This ongoing communication enables individuals to make necessary adjustments and improve their

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actions over time. Feedback ensures that the goal-setting process remains dynamic and helps in achieving desired results.

67. (A) I, II, and III only
Valid criteria for evaluating alternative courses of action include financial measures like cost, profitability, and break-even points. Managers also consider market factors, sales potential, and how competitors might react. Additionally, professional intuition regarding the likelihood of success plays a role in the selection process. These factors help ensure that the chosen alternative is feasible and aligns with organizational goals.

68. (D) Assertion (A) is false, but Reason (R) is true.
Strategy evaluation is specifically defined as the process of analyzing the actual outcomes resulting from the execution of a strategic plan. While it is an assessment tool, the assertion that it is primarily for identifying internal weaknesses is generally attributed to GAP analysis. Therefore, the reason is true as a definition, but the assertion is considered false in this context.

69. (A) I, II, III, and IV
Planning is important because it helps goal creation and provides a clear direction for the organization. It also allows the firm to tackle uncertainty by making predictions and promotes innovative ideas through creative problem-solving. However, planning cannot immediately eliminate all competitive threats. While it helps manage risks, competition remains a constant external challenge that requires ongoing strategic adjustments beyond initial planning.

70. (A) I, II, III, and IV
Planning is important because it helps goal creation and provides a clear direction for the organization. It also allows the firm to tackle uncertainty by making predictions and promotes innovative ideas through creative problem-solving. However, planning cannot immediately eliminate all competitive threats. While it helps manage risks, competition remains a constant external challenge that requires ongoing strategic adjustments beyond initial planning.

71. (A) Trigger point
In contingency planning, a trigger point is the specific condition that signals when a backup action should be initiated. For Stellar Manufacturing, the delay of imports by more than two weeks serves as this indicator. By establishing this metric in advance, the company can move quickly to its alternative sourcing strategy, minimizing the impact of global supply chain disruptions.

72. (A) I, II, and III only
A company's internal environment is categorized by its resources and assets. These include physical resources like plant and machinery, financial resources, and strategic assets such as locational advantages. Socio-cultural factors, like lifespan demographics, are external influences found in a PESTLE analysis. Therefore, only the first three points correctly identify internal environment categories, as the fourth is part of the macro-environment.

73. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Decision-making under risk involves two types of probability. Subjective probability is based on intuition and personal judgment, while objective probability is based on historical evidence and past experience. Both the assertion and the reason are true descriptions of these concepts. However, the definition of objective probability does not serve as a direct explanation for how subjective probability is assigned.

74. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Contingency plans are widely known as "Plan B" because they provide an alternative course of action. They are specifically designed to be implemented if key events do not happen as expected during the primary strategy's execution. Therefore, both the assertion and the reason are true, and the reason correctly explains why these plans are referred to as backup options.

75. (D) Disadvantage of MBO
Management by Objectives can lead to certain organizational challenges. A significant disadvantage is the massive increase in paperwork required to document elaborate goals, communication, and performance appraisals. Additionally, the constant pressure felt by

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employees to meet these measurable targets can dampen initiative. Recognizing these issues is important for managers to balance the benefits of goal setting with operational efficiency.

76. (B) I, III, and IV
The disadvantages of Management by Objectives include the time-consuming nature of setting goals and the fact that objectives can become outdated, which might dampen employee initiative. It is also an approach often associated with rewards and sanctions. However, MBO typically increases paperwork rather than reducing it, as detailed written goals and performance appraisals are fundamental components of the system.

77. (D) SMART goal
Apex Bank's target to "onboard 1 million new rural customers in 12 months" is a SMART goal. It is specific about the audience, measurable by the number of customers, and has a clear time bound of one year. Setting goals in this manner provides clarity and allows the organization to track its progress effectively against a well-defined strategic target.

78. (A) I, II, III, and IV
The planning process involves several distinct and systematic steps. These include opportunity analysis, developing planning premises, evaluating various alternatives, and finally selecting the best alternative for implementation. While PESTLE analysis is a tool used during these steps, it is not listed as a separate, mandatory stage in the standard four-step or six-step sequence of the planning process itself.

79. (D) Assertion (A) is false, but Reason (R) is true.
Management by Objectives requires more than just oral communication; it relies on elaborate written goals and detailed performance appraisals. This formal documentation often leads to an increase in paperwork within the organization. Therefore, the assertion that MBO eliminates the need for detailed appraisals is false, while the reason explaining the requirement for written goals and paperwork is true.

80. (D) Assertion (A) is false, but Reason (R) is true.
Group decision-making is generally a slower and more expensive process than individual decision-making because it requires meetings and collaboration. However, the quality of the decision is often higher because the alternatives are evaluated more thoroughly by multiple people. Thus, the assertion that group decisions are rapid and inexpensive is false, while the reason regarding thorough evaluation is true.

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81. (C) A Contingency Plan
Stellar Manufacturing's backup action to source materials from a local vendor is a classic example of a contingency plan. This alternative plan is designed to be put into effect only if global supply chain disruptions occur. By preparing this backup in advance, the company ensures it can continue production even if its primary import-based strategy faces significant delays.

82. (B) I, II, III, and V
Planning offers numerous advantages, such as coordinating activities, optimizing resource use, and establishing execution principles. It also lessens the likelihood of risk and provides inspiration and responsibilities to staff. However, planning does not reduce the need for controlling functions; instead, it provides the standards and goals that make the controlling process possible and more effective within the firm.

83. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Planning helps organizations tackle uncertainty by using existing information to make predictions about the future. If the process identifies potential risks or future losses, managers can create alternative paths to achieve their goals. This proactive approach allows the business to avoid risks where possible. Therefore, both the assertion and the reason are true, and the reason explains the assertion.

84. (C) Socio-cultural Factors
In a PESTLE analysis, socio-cultural factors reflect the attitudes, beliefs, and demographics of a population. Apex Bank's consideration of shifting consumer attitudes toward seamless, unassisted banking is a clear example of analyzing these social trends. Understanding these changes in consumer behavior is essential for developing products and services that meet the evolving expectations of the target market.

85. (C) Assertion (A) is true, but Reason (R) is false.
Under the condition of uncertainty, decision-makers have no way of measuring the likelihood of different outcomes because information is missing. This is the opposite of certainty, where the decision-maker knows exactly what will happen. Therefore, the assertion about uncertainty is true, but the reason describing complete information is false, as it actually describes the condition of certainty.

86. (D) I, II, III, and IV
PESTLE analysis provides several advantages to an organization. It is a cost-effective method that uses an easy framework to gain a deep understanding of the external environment. Furthermore, it helps develop alertness to potential changes and opportunities. By using this tool, managers can systematically scan the political, economic, social, technological, legal, and environmental factors impacting their business.

87. (B) Participation from staff members in setting individual goals.
The face-to-face conferences described in the Zenith Financial Services scenario represent the participative step of MBO. In this stage, staff members actively participate in setting their own individual goals. This collaboration ensures that personal objectives are aligned with the broader corporate strategy, which increases employee commitment and provides a clear basis for future performance monitoring and appraisal.

88. (D) I, II, III, IV, and V
Planning is composed of several key components that provide a framework for action. These include high-level objectives and policies, as well as specific procedures, rules, and directions. Furthermore, budgets provide the necessary funding, and time schedules ensure tasks are completed on time. All these elements work together to translate an organization's vision and mission into concrete, actionable steps.

89. (B) Opportunity Analysis
The initial step in the planning process for Apex Bank is opportunity analysis. By analyzing internet penetration and smartphone usage among the rural population, the bank is comprehending the existing circumstances and future prospects of a potential market. This analysis provides the factual basis needed to establish objectives and develop the rest of the business plan effectively.

90. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Organizations often delegate routine matters to middle and lower-level management. This allows top management to concentrate on crucial, strategic decisions and the formulation of broad policies. This division of labor ensures that daily operations run smoothly while leadership remains focused on long-term goals. Therefore, both the assertion and reason are true, and the reason correctly explains the delegation.

91. (B) Internal Environment Analysis
OmniCorp's evaluation of its brand equity, goodwill, and distribution network is a core part of an internal environment analysis. This process focuses on the resources and assets the company currently possesses. By understanding these internal factors, the management can identify the firm's strengths and weaknesses, which is a necessary step before entering a new market or launching products.

92. (C) Decision Making by Groups
When Nexus Bank forms a committee to evaluate an acquisition, it is engaging in group decision-making. This approach is used for significant strategic choices where multiple perspectives and a thorough evaluation of alternatives are required. While the process is more time-consuming than an individual decision, it ensures that the board members are involved and that complex risks are assessed.

93. (D) Long Term Forecast
Stellar Manufacturing's four-year projection of monetary requirements is classified as a long-term forecast. This type of forecast covers a period of three to five years and is used for strategic financial planning and large-scale capital investments. It assists the company in systematic leveraging and ensuring that adequate resources are available to support its long-term growth and stability.

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94. (C) GAP Analysis
GAP analysis is the specific assessment tool used by OmniCorp to identify performance deficiencies. By comparing the company's current internal state to its projected future position, managers can see where they are falling short. This allows them to develop targeted strategies to address these gaps, ensuring the organization has the necessary capabilities to meet its long-term strategic goals.

95. (A) Objective Probability under Risk
The Nexus Bank committee is operating under the condition of risk using objective probability. Because they are assigning a likelihood to the acquisition's success based on historical data from the target bank's past performance, they are using statistical evidence to inform their decision. This differs from subjective probability, which would rely purely on the committee members' personal intuition.

96. (B) Improved asset management and earnings via cash reserve maintenance.
The long-term forecast prepared by Stellar Manufacturing provides several strategic advantages. Specifically, it helps in maintaining cash reserves and monitoring performance variances over an extended period. This lead to improved asset management and higher earnings through systematic leveraging. Unlike short-term forecasts, it focuses on the broad financial structure rather than granular day-to-day operational details or immediate supply chain risks.

97. (A) Intangibles
Brand equity and goodwill are classified as intangible resources within an organization's internal environment. These assets do not have a physical presence but provide significant value through reputation and customer loyalty. Evaluating these intangibles is a crucial part of understanding OmniCorp's overall strength, as they often represent a competitive advantage that is difficult for other firms to replicate.

98. (B) Principle of Identity
If the board members of Nexus Bank consider all viewpoints with an open mind, they are applying the Principle of Identity. This principle encourages inclusive decision-making by ensuring that the perspectives of all involved parties are taken into account before a final choice is made. This approach fosters cooperation and helps in reaching a more balanced and effective conclusion.

99. (D) Disagreements and indecisions occurring during group decisions.
The scenario at Nexus Bank, where meetings are delayed and lead to blame-games, illustrates the common disadvantages of group decisions. These include disagreements and indecisions that can arise when multiple people with conflicting viewpoints must reach a consensus. Such conflicts often make the decision-making process more time-consuming and costly, potentially hindering the organization's ability to act quickly.

100. (D) Strengths
When OmniCorp identifies tasks they perform better than others, they are pinpointing their internal strengths. These are the capabilities and resources within the company's control that provide a competitive advantage. Recognizing these strengths is a key part of a SWOT analysis, as it allows the firm to build strategies that leverage its best assets to achieve market success.

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CHAPTER 03
Organising

Oct/Nov 2023

1. A large bank decides to group all its loan processing operations, previously handled by separate branches, into a single central processing unit based on the members' shared abilities. This action integrates efforts and establishes coherence in the work. Which principle of importance of organisation does this directly illustrate?
(A) Promoting effective communication
(B) Expansion and development
(C) Creating transparency
(D) Efficiency in administration

May/June 2018

2. Read the following statements regarding the design of a hierarchy of relationships:
I. The manager must analyse vertical relationships which represent decision making.
II. The manager must analyse horizontal relationships which represent coordinating.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2007

3. The division and coordination of work activities, as well as the distribution of resources, can be classified into two primary models. Which of the following represents these classifications?
(A) Formal and informal structures
(B) Centralised and decentralised setups
(C) Classical closed systems and open systems
(D) Line and functional hierarchies

May/June 2025

4. Read the following statements regarding the principles of organising:
I. Principle of objectives
II. Principle of continuity
III. Principle of exception
IV. Principle of efficiency
V. Principle of simplicity
Which of the above statement(s) represent(s) the correct principles of organising serving as guidelines?
(A) I, II, and IV only
(B) II, III, IV, and V only
(C) I, III, and V only
(D) I, II, III, IV, and V

Oct/Nov 2019

5. The process of organising must be carefully designed to achieve laid down objectives. How many distinct stages are generally involved in the organising process?
(A) Three
(B) Four
(C) Five
(D) Six

May/June 2009

6. Managers must understand the dynamics of authority and responsibility. Which of the following is an incorrect statement regarding delegation?
(A) Delegation is the act of passing on responsibilities and authority to subordinates.
(B) Responsibility can easily be transferred horizontally and passed on to another party.
(C) Managers cannot assign authority if they do not themselves possess that authority.
(D) When a superior gives discretionary power to a subordinate, it is known as delegating authority.

Oct/Nov 2011

7. Organising involves grouping activities and resources in a way that makes sense. Which of the following best defines the process of organising?
(A) Establishing task requirements to meet set objectives effectively
(B) Establishing effective authority relationships among tasks and people

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(C) Reviewing plans formulated by leadership to monitor performance results
(D) Modifying significant aspects of technology and the corporate culture

May/June 2010

8. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:
Assertion (A): The initial step for managers in the organising process should be to review the plans.
Reason (R): The plans formulated by the management determine the activities that are required to achieve the objectives of the organisation.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

9. While specialisation offers obvious benefits, many businesses are modifying their approach towards it. What is the primary conceptual reason for moving away from excessive specialisation?
(A) It creates a transparent chain of command from the top to the bottom.
(B) It results in employee isolation and reduces ability to perform tasks.
(C) It automatically delegates discretionary power to various subordinates.
(D) It excessively increases the manager's span of control over the staff.

May/June 2017

10. Read the following statements regarding the factors considered in organising:
I. Efficiency in administration describes the activities that distinct departments engage in and their authority connections.
II. The division of labour process enables the completion of work in shorter timeframes.
III. Creating transparency ensures personnel are assigned their appropriate levels of power and responsibility.
Which of the above statement(s) is/are correct?
(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

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Oct/Nov 2005

11. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:
Assertion (A): When managers are unable to delegate, they end up doing all of the job themselves and underutilizing their employees.
Reason (R): The capacity to effectively delegate tasks is essential to succeeding in a managing role.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2020

12. Structured relationships connect all of the different functions and positions in an organisation. Which of the following statements is correct regarding the creation of transparency through organising?
(A) Collapsing comparable jobs into a single area of technical expertise.
(B) Fostering collaboration among departments without formal documentation.
(C) Detailing tasks, duties, and responsibilities in written job descriptions.
(D) Enabling the completion of most work in the shortest possible timeframe.

Oct/Nov 2015

13. A newly established manufacturing firm calculates the complete amount of work required for exporting goods. Following this, the total work is broken down into smaller units and distributed among workers. This specific action represents which part of the organising process?
(A) Classifying Activities
(B) Review of plans and objectives
(C) Assigning of Duties
(D) Determining Objectives

May/June 2013

14. A retail bank decides to segment its operations into distinct units serving corporate clients, retail customers, and high-net-worth individuals. In the organising process, which departmentalization model is the manager utilizing to group these activities?
(A) Functional model
(B) Geographic model
(C) Customer model
(D) Product model

Oct/Nov 2021

15. The process of delegation empowers employees to contribute their own ideas. Which of the following is NOT included in the process of delegation?
(A) Creation of desired outcomes
(B) Delegation of authority for performing the tasks
(C) Assignment of tasks
(D) Elimination of all accountability for the superior

May/June 2024

16. Management functions follow a specific sequence. Which function of management comes immediately after planning?
(A) Organising
(B) Controlling
(C) Directing
(D) Staffing

Oct/Nov 2008

17. An employee in the operations department receives urgent, conflicting instructions simultaneously from both the Operations Manager and the Quality Controller. This situation violates which guiding principle of organising?
(A) Unity of Command
(B) Principle of exception
(C) Principle of balance
(D) Scalar Principle

May/June 2006

18. The management is helped in many different ways by an all-encompassing approach to organisation. Which of the following is an incorrect statement regarding the factors considered in organising?
(A) It limits the company's ability to increase strength and expand.
(B) It provides a mechanism for directing and controlling activities.
(C) It fosters collaboration and communication among the departments.
(D) It ensures each worker has a role and job that are a good fit.

Oct/Nov 2017

19. Which of the following pairs correctly matches a process in organising with its description?
(A) Determining Objectives - Breaking total work into smaller functional units
(B) Classifying Activities - Assigning an employee a job tailored to skills
(C) Assigning of Duties - Calculating the complete amount of work required
(D) Designing a hierarchy - Using charts to link different departments

May/June 2008

20. Read the following statements regarding the organising process:
I. Managers need to simply compile a list and conduct an in-depth analysis of all tasks to determine work activities.
II. A single person can easily be made responsible for managing all activities of a medium or large organisation.
III. Managers grant the authority to each individual to carry out the responsibilities given to them.
IV. Designing a hierarchy of relationships involves analysing both horizontal and vertical relationships throughout the organisation.
Which of the above statement(s) is/are correct?
(A) I and III
(B) II and IV
(C) I, II, and III
(D) I, III, and IV

Oct/Nov 2013

21. A regional head of a bank oversees 25 branch managers directly. The bank's structure provides greater independence to these branch managers due to minimal direct supervision from the regional head. This organisational dynamic is best described by which concept?
(A) Narrow span of control
(B) Strict unity of command
(C) Wide span of control
(D) Excessive work specialisation

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May/June 2015

22. Read the following statements regarding the importance of organisation:

I. Resource optimization helps to reduce misunderstanding, delays, duplication of labour, and overlap of effort.

II. Gaining expertise enables the completion of the most work in the shortest amount of time while maintaining the benefit of experience.

Which of the above statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2012

23. Consider the following stages involved in the process of organisation:

I. Categorising and grouping essential work activities into manageable units
II. Review of plans and objectives
III. Designing a hierarchy of relationships
IV. Determining the work activities needed to accomplish the objectives
V. Assigning activities and delegating authority

Which of the following represents the correct chronological sequence?

(A) II, IV, I, V, III
(B) II, I, IV, V, III
(C) IV, II, I, III, V
(D) IV, I, II, V, III

May/June 2011

24. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:

Assertion (A): The chain of command is an essential concept that connects every individual with the most senior position in the organisation.

Reason (R): The roles or positions at the very bottom of the hierarchy are the ones given the most formal authority.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2020

25. After analysing and classifying all the tasks, employees are given specific jobs. Which document explicitly defines an employee's duties and responsibilities tailored to their skills?

(A) Policy Manual
(B) Job Description
(C) Master Chart
(D) Operating Manual

May/June 2022

26. Any manager needs to have a fundamental grasp of organisation design. Which of the following is the most appropriate statement regarding the design of organisations?

(A) It strictly avoids evaluating interdependencies found in daily task performance.
(B) It limits the scope of managerial focus to strictly vertical authority models.
(C) It isolates individuals to prevent decision-making overlap within the firm.
(D) It considers the interdependencies existing between daily work activities.

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Oct/Nov 2023

27. The scalar principle establishes a framework for authority flow. Which of the following is a correct statement regarding the scalar principle?

(A) It permits a "gang plank" to contact a superior's superior in emergencies.
(B) It prevents subordinates from contacting a superior's superior at any time.
(C) It dictates that every worker have just one manager for direct accountability.
(D) It suggests that authority flow horizontally across similar functional levels.

May/June 2016

28. Match the following factors considered in organising (List-I) with their corresponding descriptions (List-II):

List I: (Factors in Organising)

P. Efficiency in Administration
Q. Resource Optimization
R. Gaining Expertise
S. Creating Transparency

List II: (Descriptions)

1. Ensures each worker has a role and job that are a good fit for them
2. Detailed in a written document known as the job description

3. Subdividing various activities based on the division of labour
4. Collapsing comparable and linked jobs into a single area of expertise

(A) P-4, Q-1, R-3, S-2
(B) P-3, Q-4, R-1, S-2
(C) P-1, Q-2, R-4, S-3
(D) P-2, Q-3, R-1, S-4

Oct/Nov 2009

29. Work specialisation is a fundamental principle of organising. Which term is synonymous with this concept?
(A) Unity of command
(B) Span of control
(C) Division of labour
(D) Scalar principle

May/June 2023

30. During the categorising and grouping stage of the organising process, a manager might choose to group activities using specific departmentalization models. Which of the following is NOT one of the four models identified for this purpose?
(A) Functional
(B) Product
(C) Geographic
(D) Technological

Oct/Nov 2018

31. An international clothing brand struggles to adapt its product line to the specific cultural preferences of distinct regional markets because all product choices are made at the global headquarters. This scenario highlights which disadvantage of a centralised organisation?
(A) Lack of clarity in decision-making processes
(B) Increase in administrative costs due to duplication of efforts
(C) Less responsiveness to localised demands
(D) Inconsistency in operations across divisions

May/June 2007

32. Read the following statements regarding the disadvantages of a committee organisation:
I. The tendency to delegate decision-making to committees hinders the initiative and inventiveness of line executives.
II. Decisions made by a committee are solely attributed to the highest-ranking member, eliminating a split in accountability.

Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2025

33. Read the following statements regarding the Chain of Command:
I. It is the continuous chain of authority that connects every individual with the most senior position.
II. It enforces the concepts of responsibility and accountability.
III. The two guiding principles underpinning it are the Scalar Principle and the Unity of Command.

Which of the above statement(s) is/are correct?
(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

May/June 2012

34. Informal organisations offer both benefits and drawbacks. Which of the following is NOT considered a disadvantage of an informal organisation?
(A) Engaging in rumour-spreading
(B) Potential to have unfavourable effects on management changes
(C) Placement of a greater emphasis on individual interests
(D) Satisfying societal and psychological requirements of employees

Oct/Nov 2014

35. The Line and Staff organisation model offers multiple benefits but also has drawbacks. Which of the following is NOT an advantage of Line and Staff organisation?
(A) Keeping staff expert remuneration low
(B) Providing relief to the line executives
(C) Improvement in organizational coordination
(D) Benefits of Research and Development work

May/June 2019

36. A firm utilizes an organisation chart where positions having approximately the same level of significance are found on circles equidistant from the center. Despite its visual appeal,

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management notes that it frequently causes confusion. Which chart is being used?
(A) Circular chart
(B) Left to right chart
(C) Master chart
(D) Top-down chart

Oct/Nov 2006

37. Match the following principles of organising (List-I) with their descriptions (List-II):
List I: (Principles of Organising)
P. Unity of Command
Q. Scalar Principle
R. Authority
S. Span of Control
List II: (Descriptions)
1. The number of workers under a manager's supervision
2. Each worker should have just one manager
3. Legitimate power delegated to managers to make decisions
4. Transparent chain extending from supreme authority to every person
(A) P-2, Q-4, R-3, S-1
(B) P-4, Q-2, R-1, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-1, Q-3, R-2, S-4

May/June 2021

38. Read the following statements regarding the features of Line and Staff Organisation:
I. There are two different kinds of staff members: Staff Assistants and Staff Supervisor-Operations Control.
II. Work is segmented and specialised in accordance with individual needs.
III. Authority flows through a single channel to avoid confusion.
IV. Staff specialists are assigned to a variety of functional divisions.
V. The line executive retains control of the commanding role.
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV
(B) I, II, IV, and V
(C) II, III, IV, and V
(D) I, III, IV, and V

Oct/Nov 2010

39. Employees in a large bank begin gathering during breaks to discuss shared interests, creating a supportive network that helps them manage job stress. This unofficial structure improves their psychological fulfillment. Which concept is primarily illustrated in this scenario?
(A) Functional Departmentalization
(B) Line and Staff Authority
(C) Formal Organisation
(D) Informal Organisation

May/June 2005

40. Read the following statements regarding the disadvantages of a decentralised organisation:
I. It is frequently difficult to ensure that all divisions are working consistently toward strategic goals.
II. There is an increase in administrative costs due to duplication of efforts.
III. Division managers may customise operations, leading to inconsistency.
IV. Divisions may become operationally isolated and act as their own fiefdom.
Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) II, III, and IV
(C) I, III, and IV
(D) I, II, III, and IV

Oct/Nov 2022

41. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:
Assertion (A): The incorporation of modifications into the organisation chart and manual requires some time, resulting in rigidity.
Reason (R): William H. Newman observed that the sanctity of printed words tends towards inflexibility and increased difficulty.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2018

42. During a major system failure in a bank, a junior IT officer directly contacts the Chief Information Officer to resolve the issue rapidly, bypassing their immediate supervisor, though briefing them immediately after. Which specific concept allows this action?

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(A) Unity of Direction
(B) Span of Control
(C) Gang plank
(D) Principle of balance

Oct/Nov 2016

43. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:
Assertion (A): In a functional organisation, the principle of unity of command does not apply.
Reason (R): Each functional area is assigned to functional specialists vested with authority over that function anywhere within the organisation.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2014

44. A company establishes departments for operations, finance, and marketing. Subordinates receive commands from multiple specialists serving as managers above them. Conceptually, which type of organisation does this represent?
(A) Centralised Organisation
(B) Committee Organisation
(C) Line Organisation
(D) Functional Organisation

Oct/Nov 2007

45. A company decides to present its organisation levels going from left to right. Conceptually, which of the following is a key benefit of this horizontal chart?
(A) It eliminates the need for understanding formal authority.
(B) It replaces the informal grapevine structure with strict rules.
(C) It is written in the standard reading order, moving from left to right.
(D) It places the highest ranking position in the dead center of the chart.

May/June 2025

46. While a wide span of control affords greater independence, narrow spans have distinct advantages. What is the most appropriate benefit of a narrow span of control?
(A) Managers spend less time with direct subordinates on a daily basis.
(B) Managers spend more time with subordinates, promoting professional growth.
(C) It completely removes the need for formal authority within the hierarchy.
(D) It allows subordinates to bypass the scalar principle on a regular basis.

Oct/Nov 2019

47. A manager learns about widespread dissatisfaction regarding a new policy by listening to casual conversations among employees rather than through formal reports. The manager uses this information to adjust the policy smoothly. In this context, how is the informal organisation acting?
(A) As an official tool for rigid disciplinary control over the workforce.
(B) As a strategic tool using the grapevine to communicate key information.
(C) As a formal source of authority overriding the board and the directors.
(D) As a mechanism to spread detrimental and false rumours through the firm.

May/June 2009

48. Match the following advantages of a decentralised organisation (List-I) with their practical outcomes (List-II):
List I: (Advantages of Decentralisation)
P. Fast decision making and response times
Q. Improvement in the morale of employees
R. Skilled and/or specialised management
S. A more effective utilisation of lower and middle management
List II: (Practical Outcomes)
1. Workers have more say in the decisions that affect them
2. Managers develop significant knowledge and competence in a variety of fields
3. Making investments in the training of highly skilled workers
4. Seizing chances consistent with the overall strategic direction in a timely way
(A) P-4, Q-1, R-3, S-2
(B) P-1, Q-2, R-4, S-3
(C) P-3, Q-4, R-2, S-1
(D) P-2, Q-3, R-1, S-4

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Oct/Nov 2011

49. Read the following statements regarding the features and impact of Functional Organisation:

I. All activities are broken down into respective functions like operations, finance, and marketing.
II. It is a less complex form of administrative organisation than line organisation.
III. The expert knowledge of the functional manager makes for greater control and monitoring.
IV. Disagreements among supervisory staff with equal positions can lead to conflicts.
V. Standardisation combined with specialisation makes maximum output at the lowest cost possible.

Which of the above statement(s) is/are correct?
(A) I, II, III, and IV
(B) I, III, IV, and V
(C) II, III, IV, and V
(D) I, II, IV, and V

May/June 2010

50. Match the following disadvantages of committee organisation (List-I) with their descriptions (List-II):

List I: (Disadvantages of Committee Organisation)
P. Delay in Decisions
Q. The Possibility of Diversion
R. Lack of Secrecy
S. Division of Accountability

List II: (Descriptions)
1. The conversation may be redirected to another topic
2. Dissecting issues in detail increases the chance of secret plans becoming public
3. No one is held responsible for the decisions reached
4. Taking extra time to discuss various aspects of a problem

(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-3, R-4, S-1

Oct/Nov 2024

51. Match the following sections of an organisation manual (List-I) with the broader concept they represent (List-II):

List I: (Sections of an Organisation Manual)
P. Policy Manual
Q. Operational Manual
R. Organisational Manual
S. Rules and Regulations Manual

List II: (Concepts)
1. Outlines methods and rules for daily functioning
2. Details the aims and overarching guidelines of the organisation
3. Contains specific mandatory codes of conduct
4. Details authority and responsibilities of various divisions

(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-3, R-2, S-1
(D) P-3, Q-4, R-1, S-2

May/June 2017

52. Which of the following accurately defines a centralised business structure?

(A) Key decisions are delegated to multiple divisional heads across various locations.
(B) Formal and informal rules dictate decision-making at the lowest levels.
(C) Functional specialists possess the authority to make all decisions without central oversight.
(D) Key decisions are made by a single individual who provides primary strategic direction.

Oct/Nov 2005

53. In a line and staff organisation, two different authorities are flowing at the same time. Which of the following is a correct statement regarding these roles?

(A) Staff supervisors hold ultimate command over all primary business operations.
(B) Line executives are primarily responsible to guide and advise staff members.
(C) Line executives hold command, while staff supervisors guide and advise them.
(D) The principle of unity of command ensures staff specialists issue commands.

May/June 2020

54. Match the following elements with the type of organisation they belong to, based on the distinction between Formal and Informal Organisation:

List I: (Organisational Elements)
P. Policies and Procedures

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Q. Group Norms
R. Job Descriptions
S. Perceptions and Attitudes
List II: (Organisation Type)
1. Formal Organisation
2. Informal Organisation
3. Formal Organisation
4. Informal Organisation
(A) P-1, Q-2, R-3, S-4
(B) P-2, Q-1, R-4, S-3
(C) P-3, Q-4, R-1, S-2
(D) P-1, Q-4, R-2, S-3

Oct/Nov 2015

55. Functional organisations present several disadvantages, particularly when applied at various levels. Which of the following is an incorrect statement regarding the disadvantages of a functional organisation?
(A) Straightforward blame through single authority
(B) Weak disciplinary control and command structure
(C) Challenging coordination due to unit confusion
(D) Expensive maintenance of high-degree specialists

May/June 2013

56. Which of the following pairs regarding organisation charts is incorrectly matched?
(A) Vertical chart - Hierarchical pyramid from top to bottom
(B) Supplementary Charts - In-depth look at department links
(C) Master Charts - Displays the entirety of formal structure
(D) Horizontal chart - Reading order moving from left to right

Oct/Nov 2021

57. Read the following statements regarding the classification of organisation charts based on how they are prepared:
I. A vertical chart depicts the level of organisation as a hierarchical pyramid from top to bottom.
II. A horizontal chart breaks the chain of command into horizontal sections reading from left to right.
III. A circular chart illustrates the vertex at the centre of a series of concentric circles.
Which of the above statement(s) is/are correct?
(A) I and II
(B) I and III
(C) II and III
(D) I, II, and III

May/June 2024

58. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:
Assertion (A): A large and complicated business may use a line-staff organisational structure in an effort to increase adaptability without giving up managerial authority.
Reason (R): In a line-staff organisation, the staff members retain absolute control of the commanding role, while line executives are limited to advisory roles.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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Oct/Nov 2008

59. What defines an informal organisational structure within a business?
(A) The act of consciously structuring job responsibilities to reach goals.
(B) A hierarchical diagram showing formal channels and degrees of power.
(C) A network of social groups created by individuals in various positions.
(D) A strict compliance model detailing the division of labour and funds.

May/June 2006

60. A corporate board forms a group comprising specialists from finance, legal, and operations to resolve a highly complicated regulatory dispute. This allows competent people to take part in management activities democratically. Which advantage of committee organisation is demonstrated here?
(A) Efficient control through checks and balances
(B) Participatory Management
(C) Creation of an unofficial organisational structure

(D) Decrease in administrative costs

Oct/Nov 2017

61. Match the following Types of Organisational Culture (List-I) with their defining characteristics (List-II):

List I: (Types of Organisational Culture)

P. The Clan Culture
Q. The Adhocracy Culture
R. The Culture of the Market
S. The Hierarchy Culture

List II: (Characteristics)

1. Characterised by a high level of energy, inventiveness, and risk-taking
2. Founded on competitive nature, pursuing tangible success and market share
3. Built on working together, perceiving the organisation as a large family
4. Emphasizes formal atmosphere, stringent protocols, and predictability

(A) P-3, Q-1, R-2, S-4
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-3, R-2, S-1
(D) P-2, Q-4, R-1, S-3

May/June 2008

62. A line manager commands his team by emphasizing that non-compliance with his directives will result in immediate termination or demotion. Which source of authority is the manager predominantly utilizing?

(A) Coerciveness
(B) Referent Authority
(C) Rewarding Authority
(D) Legitimate Authority

Oct/Nov 2013

63. Which of the following pairs regarding organisation charts is incorrectly matched?

(A) Vertical chart - Hierarchical pyramid from top to bottom
(B) Supplementary Charts - In-depth look at department links
(C) Master Charts - Displays the entirety of formal structure
(D) Horizontal chart - Reading order moving from left to right

May/June 2015

64. Customers of a business are consistently upset because the products do not meet their expectations and the support staff delivers bad service. What is the most appropriate approach mentioned to address this problem of low customer satisfaction?

(A) Implementing archaic business strategies to restrict client choices
(B) Allowing the grapevine to handle customer complaints unofficially
(C) Retraining personnel and engaging customers via social media polls
(D) Shifting to an adhocracy culture exclusively to solve the issues

Oct/Nov 2012

65. Understanding the flow of duties is critical in an organisation. Which of the following is an incorrect statement concerning Responsibility?

(A) The subordinate can easily delegate this responsibility to anyone else.
(B) A subordinate is obliged to their superior authority to complete delegated tasks.
(C) The chain of responsibility moves from the subordinate to the superior position in an ascending order.
(D) It means making a moral commitment to complete the allotted work.

May/June 2011

66. Consider the following phases of Kurt Lewin's Change Management Model:

I. Refreeze
II. Unfreeze
III. Change

Which of the following represents the correct chronological sequence?

(A) I, II, III
(B) III, II, I
(C) II, III, I
(D) II, I, III

Oct/Nov 2020

67. Read the following statements regarding the advantages of the Organisation Chart and Manual:

I. They serve as an essential management tool containing information about structure and authorities.
II. They ensure all activities are covered properly, avoiding overlapping and duplicate activities.
III. They resolve organisational conflicts by clearly showing authority relationships.
IV. They act as reference guides for outsiders

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who are unfamiliar with the organisation.

Which of the above statement(s) is/are correct?

(A) I, II, and III
(B) II, III, and IV
(C) I, III, and IV
(D) I, II, III, and IV

May/June 2022

68. Read the following statements regarding the characteristics of Authority:

I. It serves as the foundation upon which work can be completed.
II. It possesses legitimacy accorded by law, formal setting, or historical backing.
III. The ability to make decisions is completely detached from holding power.
IV. Its exercise is heavily influenced by subjective factors like the manager's personality.

Which of the above statement(s) is/are correct?

(A) I, II, and III
(B) I, II, and IV
(C) II, III, and IV
(D) I, III, and IV

Oct/Nov 2023

69. Read the following statements regarding losses in productivity:

I. There are not enough people on the teams.
II. Workers get disinterested in their work or become distracted.
III. Alterations in structure and practice made suddenly might be disorienting.
IV. Deadlines are unachievable.
V. Management is ineffective.

Which of the above statements represent(s) causes for losses in productivity experienced by an organisation?

(A) I, II, III, and V only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

May/June 2016

70. Which of the following is a correct statement regarding "The Hierarchy Culture"?

(A) Leadership takes the form of mentoring for all of its members.
(B) The focus is strictly on achieving an edge over all competitors.
(C) It emphasizes productivity and predictability through coordination.
(D) Experimentation is the primary means for maintaining firm cohesion.

Oct/Nov 2009

71. Read the following statements regarding John P. Kotter's Eight Phases of Change Management:

I. A rising sense of urgency
II. Getting the vision right
III. Refraining from ignoring the conflict
IV. Concentrating on goals for the near term
V. Adapting to new circumstances

Which of the above statements represent(s) actual stages in Kotter's model?

(A) I, II, III, IV
(B) I, II, IV, V
(C) II, III, IV, V
(D) I, III, IV, V

May/June 2023

72. Read the following statements concerning the disadvantages of a formal organisation:

I. Strict adherence to scalar chains and chains of command pushes back the action, postponing it.
II. It prioritises psychological and social needs, leading to a decline in productivity.

Which of the above statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2018

73. Within forms of responsibility, there is a clear distinction between operating and ultimate levels. Which of the following is a correct statement regarding Ultimate Responsibility?

(A) It applies strictly to the individual physically performing the manual labor.
(B) It can be entirely delegated to lower-level employees to avoid accountability.
(C) It relies exclusively on the informal grapevine for execution.
(D) The manager bears the ultimate accountability to ensure the work gets done.

May/June 2007

74. A superior can delegate the right to give orders to achieve tasks. However, what happens to the responsibility of the superior after delegating authority?

(A) The responsibility is fully transferred to the

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subordinate party.
(B) The responsibility is horizontally distributed among the peers.
(C) The superior cannot absolve himself of the obligation to perform.
(D) The responsibility flows downward alongside the delegated power.

Oct/Nov 2025

75. Match the following facets of evaluating change requests (List-I) with their corresponding descriptions (List-II):
List I: (Facets of Evaluating Change Requests)
P. Scope
Q. Timing
R. Costing
S. Quality
List II: (Descriptions)
1. Rushing through activities can result in significant and immediate shifts in expenses
2. Acceleration of the timetable has the potential to impair output and lead to flaws
3. Examination should determine how the request affects project boundaries
4. Consideration of how requests affect the overall schedule of the project
(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-1, Q-2, R-3, S-4
(D) P-2, Q-1, R-4, S-3

May/June 2012

76. While an organisation chart illustrates the primary functions visually, an organisation manual provides supplementary information. Which of the following is the most appropriate meaning of an Organisation Manual?
(A) A graphical form depicting channels of communication and social norms.
(B) A document solely focused on the psychological fulfillment of employees.
(C) A legally binding contract between line executives and staff specialists.
(D) A book detailing aims, authority, responsibilities, and procedures.

Oct/Nov 2014

77. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:
Assertion (A): Organisations may experience less innovation and become more stagnant over time.
Reason (R): They continue to employ archaic business strategies that stifle rather than foster innovation, and maintain cultures that do not encourage creativity.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2019

78. A tech startup actively encourages its employees to take calculated risks and experiment with new ideas, prioritizing individual ingenuity over rigid protocols. Based on these traits, which organisational culture is prevalent in this startup?
(A) The Clan Culture
(B) The Hierarchy Culture
(C) The Culture of the Market
(D) The Adhocracy Culture

Oct/Nov 2006

79. Read the following statements regarding authority and responsibility:
I. Equality of treatment ought to be given to both authority and responsibility, as they share a very close relationship.
II. Even though authority is partially objective, its exercise is free from subjective influences.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2021

80. Subordinates frequently follow the instructions of their university professor not because of fear or formal title, but due to the high regard in which the professor's specialised knowledge is held. Which source of authority does the professor wield?
(A) Referent Authority
(B) Rewarding Authority
(C) Legitimate Authority
(D) Expertise

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Oct/Nov 2010

81. An organisation applies the McKinsey 7S framework to manage a major transition but focuses heavily on 'Strategy' and 'Structure' while neglecting 'Shared Values' and 'Skills'. As a result, the entire change initiative collapses. Which disadvantage of the McKinsey 7S model does this scenario illustrate?

(A) It fails to provide varied approaches to organizational understanding.
(B) It ignores the practical aspects of implementing corporate changes.
(C) Interdependency causes the whole model to fail if one part fails.
(D) It places too much emphasis on differences between various elements.

May/June 2005

82. The values, attitudes, beliefs, and behaviours that characterise a work environment make up the organisational culture. What is another term commonly used for organisational culture?

(A) Corporate culture
(B) Bureaucratic climate
(C) Structural paradigm
(D) Procedural ethos

Oct/Nov 2022

83. Read the following statements regarding the concept of Authority:

I. A superior has the legal right to issue commands to those under his or her supervision.
II. Authority moves from superior to subordinate in a downward direction.
III. Authority can be defined as the legitimate power that an individual possesses over others.

Which of the above statement(s) is/are correct?

(A) I and II
(B) I and III
(C) II and III
(D) I, II, and III

May/June 2018

84. A hiring manager fails to conduct a comprehensive interview, resulting in an unqualified candidate being placed in a highly technical role due to nepotism. This disrupts the workflow. Which key issue in organisational structure is demonstrated here?

(A) Customer satisfaction
(B) Process Management
(C) Role Specification
(D) Turnover

Oct/Nov 2016

85. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:

Assertion (A): An individual holding operating responsibility is ultimately responsible for ensuring the staff members effectively carry out the work.

Reason (R): Operating responsibility implies that the person who is doing the work is the one obligated to fulfill it.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2014

86. Which of the following correctly pairs a characteristic with the Informal Organisation?

(A) Establishing one's place in the official organizational chain of command.
(B) Lack of a predetermined chain of command for the flow of information.
(C) Placement of exclusive emphasis on the completion of professional work.
(D) Consciously structuring job descriptions and organizational hierarchies.

Oct/Nov 2007

87. Any modification to an organisation that results in an improvement to already established processes and procedures falls under which primary category of organisational change?

(A) Changes during Transition
(B) Developmental Change
(C) Transformational Change
(D) Sudden Disruption

May/June 2025

88. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:

Assertion (A): Organisational culture is one of the things that is the most difficult to change.

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Reason (R): It is unique to each company and is comprised of both written and unwritten rules that have been developed over the course of time.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2019

89. A financial institution notices a continuous pattern of employees quitting their jobs, forcing the HR department to continually bring in new staff. The employees cited feeling underpaid and unheard. This scenario highlights which specific issue in the organisational structure?
(A) Innovation stagnation
(B) Turnover
(C) Process Management
(D) Role Specification

May/June 2009

90. Match the following Sources of Authority (List-I) with their foundations (List-II):
List I: (Sources of Authority)
P. Legitimate Authority
Q. Coerciveness
R. Expertise
S. Referent Authority
List II: (Foundations)
1. Recognition of a person's faith as a leader held in high esteem and admiration
2. Derives from the status quo and cultural system of obligations
3. Based on the ability to instill fear and expectation of punishment
4. Power that comes from having knowledge and abilities in a particular field
(A) P-2, Q-3, R-4, S-1
(B) P-3, Q-2, R-1, S-4
(C) P-1, Q-4, R-3, S-2
(D) P-4, Q-1, R-2, S-3

Oct/Nov 2011

91. Read the following statements regarding the skills needed for conflict management:
I. Engaging in the practice of empathy
II. Denunciation or Fault Finding
III. Understanding others' body language
Which of the above statement(s) is/are correct?
(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

May/June 2010

92. Following the announcement of an unexpected corporate merger, an employee develops a buffer around themselves, experiencing a feeling of numbness and refusing to believe the merger is actually taking place. According to the Kubler-Ross Five Stage Model, which stage is the employee experiencing?
(A) Bargaining
(B) Anger
(C) Denial
(D) Depression

Oct/Nov 2024

93. The ADKAR model is a goal-oriented tool for change management. Which of the following is an incorrect statement regarding what the letters in ADKAR stand for?
(A) R stands for Reinforcement - to maintain current position and add support later.
(B) D stands for Desire - a strong desire to be a part of the process.
(C) K stands for Knowledge - how to effect this transformation.
(D) A stands for Action - the physical implementation of the change.

May/June 2017

94. After a conflict has been pinpointed and addressed, a manager must check in with both sides to ascertain whether the steps outlined are being carried out. This describes which necessary prerequisite for complete conflict resolution?
(A) Explaining the nature of the issue at hand
(B) Identifying a solution for all the parties
(C) Maintaining vigilance and following up on the situation
(D) Refraining from ignoring the conflict within the team

Oct/Nov 2005

95. Understanding conflict dynamics is crucial for managers. What is the primary goal of conflict management in an organisation?

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(A) To improve learning and group outcomes, such as performance.
(B) To eliminate all negative outcomes permanently from the firm.
(C) To ignore disputes until they resolve themselves in a natural way.
(D) To enforce rigid disciplinary control over all conflicting parties.

May/June 2020

96. Read the following statements regarding Bridges' Transition Model:
I. It concentrates on internal psychological processes involved in moving through change.
II. It distinguishes change, which occurs to people, from transition, which occurs from the inside out.
III. It centres on three primary steps.
IV. The steps are: Ending, Losing, and Letting Go; Neutral zone; New beginning.
Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) II, III, and IV
(C) I, III, and IV
(D) I, II, III, and IV

Oct/Nov 2015

97. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:
Assertion (A): When dealing with a dispute, it is necessary to organise a meeting where all parties are brought together simultaneously.
Reason (R): This allows them to resolve their differences in an atmosphere that is impartial and helps figure out what part everyone is playing in the disagreement.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2013

98. Two members of a team are arguing over resource allocation. The manager, disliking confrontation, acts as if the problem doesn't exist, hoping it goes away. Instead, the problem becomes more severe. Which conflict resolution strategy did the manager fail to apply?
(A) Identify a solution
(B) Refrain from Ignoring the Conflict
(C) Maintain vigilance
(D) Organise a meeting between the various parties involved

Oct/Nov 2021

99. Management wishes to introduce a new software tool and gently pushes the staff toward adoption by providing encouraging prompts and explaining existing influences to modify behavior positively, rather than using direct mandates. This approach is best attributed to which theory?
(A) Bridges' Transition Model
(B) Lewin's Change Model
(C) Kotter's Principles
(D) Nudge Theory

May/June 2024

100. Which of the following is NOT listed as one of the top five strategies for conflict resolution?
(A) Explain the nature of the issue at hand
(B) Organise a meeting between various parties
(C) Maintain vigilance and follow up on cases
(D) Delegate the conflict to an external department

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ANSWERS

1. (D) Efficiency in administration
Efficiency in administration is a key principle illustrated when a bank groups its loan processing into a single central unit. This action is based on shared abilities among members, which integrates efforts and establishes coherence. By centralizing these specific operations, the organization ensures that work is handled by experts, leading to improved administrative speed and better overall coordination.

2. (C) Both I and II
Designing a hierarchy of relationships requires managers to carefully analyze both vertical and horizontal connections. Vertical relationships focus on the flow of authority and decision-making power from the top down. Horizontal relationships emphasize coordination and communication across different departments. Both are essential for creating a structured environment where responsibilities and tasks are clearly understood by everyone in the firm.

3. (A) Formal and informal structures
Work activities and resources in an organization are primarily divided and coordinated through formal and informal structures. The formal structure is officially defined by management to achieve specific goals through documented roles. The informal structure arises naturally from social interactions among employees. Together, these two models determine how work is distributed and how people interact within a professional business environment.

4. (D) I, II, III, IV, and V
Organizing is guided by several fundamental principles that serve as essential management guidelines. These include the principles of objectives, continuity, exception, efficiency, and simplicity. Each principle helps managers build a structure that is robust, easy to understand, and capable of adapting to changes while focusing on the primary goals of the business. All five listed principles are valid requirements.

5. (C) Five
The organizing process generally follows five distinct and logical stages to achieve business objectives. It begins with reviewing plans, followed by determining required activities and then classifying them into units. Next, managers assign duties and delegate the necessary authority. Finally, they design a hierarchy of relationships. Following these five stages ensures the organization is structured for maximum success and clarity.

6. (B) Responsibility can easily be transferred horizontally and passed on to another party.
While managers can delegate authority to subordinates to perform specific tasks, they cannot transfer their ultimate responsibility. Responsibility is an obligation to perform and remains tied to the individual assigned the task. It cannot be passed horizontally or easily shifted to another party. The manager remains accountable for the results of any work they have delegated to their staff.

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(B) Establishing effective authority relationships among tasks and people
Organizing is a fundamental management process that focuses on establishing effective authority relationships among various tasks and people. It involves grouping resources and activities in a logical way to ensure that work is performed efficiently. By clearly defining who does what and who reports to whom, the organization can achieve its laid down objectives with minimal confusion or overlap.

8. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The first step in the organizing process involves reviewing existing plans and objectives. This is essential because the plans formulated by management dictate which activities are necessary to reach organizational goals. Without a clear understanding of these plans, a manager cannot determine how to group tasks or allocate

resources effectively. Therefore, the review serves as the foundation for organizational structure.

9. (B) It results in employee isolation and reduces ability to perform tasks.
Excessive work specialization can lead to negative outcomes such as employee isolation and a reduced ability to perform diverse tasks. While it offers efficiency, many businesses now modify this approach to prevent workers from becoming bored or disinterested. Moving away from extreme specialization helps maintain employee engagement and ensures that staff members develop a broader understanding of overall organizational processes.

10. (D) I, II, and III
Organizing involves several key factors, including efficiency in administration, division of labor, and creating transparency. Efficiency ensures departments have clear authority connections, while the division of labor allows for faster task completion through specialized effort. Transparency is achieved when written job descriptions detail the power and responsibility levels for every employee. All three statements correctly describe these vital organizational factors.

11. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Effective delegation is a critical skill for any manager aiming to succeed in their role. Managers who fail to delegate often become overwhelmed by trying to do everything themselves, which leads to the underutilization of their staff's talents. By delegating, managers empower employees and free up time for strategic planning. Both the assertion and the reason are true and connected.

12. (C) Detailing tasks, duties, and responsibilities in written job descriptions.
Transparency within an organization is created by detailing tasks, duties, and responsibilities in written job descriptions. This formal documentation ensures that every employee understands exactly what is expected of them and who they report to. By making these roles clear, the organization reduces confusion and overlap, allowing for smoother communication and more effective management of all internal business functions.

13. (A) Classifying Activities
The stage of classifying activities involves breaking down the total workload into smaller, manageable functional units. In this scenario, the manufacturing firm identifies the total work required for exporting and then distributes it among workers in specialized parts. This ensures that tasks are organized logically based on shared abilities or functions, which is a core part of the organizing process.

14. (C) Customer model
A customer-based departmentalization model groups activities according to the specific types of clients or customers the organization serves. By creating separate units for corporate, retail, and high-net-worth individuals, the bank can tailor its services to meet the unique needs of each group. This model is particularly effective in service-oriented industries where different client segments require specialized attention and expertise.

15. (D) Elimination of all accountability for the superior
Delegation is a process where a superior assigns tasks and grants authority to subordinates to achieve desired outcomes. However, this process does not eliminate the superior's ultimate accountability. Even when a subordinate is given the power to act, the manager remains responsible for the final results. Omission of accountability is not a part of any legitimate delegation process in management.

16. (A) Organizing
Organizing is the management function that immediately follows planning in the traditional sequence of administrative activities. Once plans and objectives are established, the manager must create a structure to implement them. This involves arranging resources, grouping tasks, and establishing authority relationships. Without organizing, the plans formulated during the initial stage cannot be effectively executed to achieve the desired goals.

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17. (A) Unity of Command
The principle of unity of command dictates that an employee should receive orders and instructions from only one supervisor. Receiving conflicting commands from both an operations manager and a quality controller violates this principle. Such situations cause confusion, frustration, and a breakdown in accountability. Maintaining a single line of command is essential for ensuring clarity and efficiency within the organizational hierarchy.

18. (A) It limits the company's ability to increase strength and expand.
An all-encompassing approach to organization actually increases a company's ability to grow, expand, and increase its strength. It provides the necessary structure for directing and controlling activities effectively. Saying that organizing limits a company's ability to expand is incorrect because a well-structured organization is better equipped to handle growth, manage resources, and adapt to new challenges in the marketplace.

19. (D) Designing a hierarchy - Using charts to link different departments
Designing a hierarchy involves the use of organizational charts to visually link different departments and positions. This process establishes the formal authority relationships and communication channels within the firm. While other stages focus on breaking down work or assigning duties, designing the hierarchy specifically creates the structural framework that connects every part of the organization into a cohesive and unified whole.

20. (A) I and III
In the organizing process, managers must first compile and analyze all tasks to determine necessary work activities. They also grant individuals the authority needed to carry out their assigned responsibilities. However, it is not practical for a single person to manage all activities in a large firm, and hierarchy design involves both vertical and horizontal analysis. Thus, statements I and III.

21. (C) Wide span of control
A wide span of control exists when a manager oversees a large number of direct subordinates, such as twenty-five branch managers. This structure promotes greater independence among employees because the manager cannot provide constant, detailed supervision. It is often used in organizations where subordinates are highly skilled or where tasks are standardized, allowing the manager to focus on high-level strategic oversight.

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22. (C) Both I and II
Resource optimization and gaining expertise are two major benefits of an effective organizational structure. Optimization reduces delays and duplication of effort by ensuring resources are used efficiently. Expertise is gained through the division of labor, which allows employees to specialize and complete work more quickly using their experience. Both statements accurately reflect the importance of organizing in a professional business setting.

23. (A) II, IV, I, V, III
The chronological sequence of organizing starts with reviewing plans and objectives. Next, the manager determines the specific work activities required. These activities are then categorized and grouped into units. Following this, the manager assigns the activities and delegates authority to subordinates. Finally, the formal hierarchy of relationships is designed. This logical order ensures that the organizational structure is goal-oriented.

24. (C) Assertion (A) is true, but Reason (R) is false.
The chain of command is a vital concept connecting every individual in an organization to the highest level of leadership. It establishes the flow of authority from the top down. While the assertion is true, the reason is false because formal authority is concentrated at the top of the hierarchy, not the bottom. Lower-level positions have the least amount of authority.

25. (B) Job Description
A job description is the formal document that explicitly defines an employee's duties, responsibilities, and tasks. It is tailored to the individual's skills and their specific position within the organizational structure. By providing a clear written record of what is expected, the job description ensures transparency and helps both the manager and the employee understand their roles and authority levels.

26. (D) It considers the interdependencies existing between daily work activities.
Organization design is a critical managerial task that must consider the interdependencies between daily work activities. Effective design ensures that various tasks and departments are linked in a way that promotes coordination and efficiency. It avoids isolating individuals and instead focuses on how different roles interact to achieve the firm's goals. Understanding these relationships is fundamental to building a successful structure.

27. (A) It permits a "gang plank" to contact a superior's superior in emergencies.
The scalar principle establishes a clear, vertical chain of authority from the top of the organization to the bottom. However, Fayol introduced the "gang plank" concept to allow for faster communication during emergencies. This mechanism permits employees to contact a superior's superior or a peer in another department directly, bypassing the formal chain temporarily to ensure rapid and effective problem-solving.

28. (A) P-4, Q-1, R-3, S-2
Efficiency in administration involves collapsing comparable jobs into expertise areas. Resource optimization ensures every worker fits their specific role to minimize waste. Gaining expertise relies on the division of labor to improve speed and quality. Creating transparency is achieved through detailed written job descriptions. Matching these factors with their correct descriptions helps illustrate how organizing improves overall organizational performance and role clarity.

29. (C) Division of labour
Division of labor is the term synonymous with work specialization. This concept involves breaking down a large, complex task into smaller, specialized steps that are performed by different individuals. By focusing on a single part of the process, workers become highly proficient and efficient. This principle is a cornerstone of organizational design, aimed at maximizing output and improving technical expertise.

30. (D) Technological
When grouping activities, managers typically use four primary departmentalization models: functional, product, geographic, and customer. These models help organize work based on the type of task, the item produced, the location, or the target audience. Technological departmentalization is not one of the standard four models identified for this specific stage of the organizing process in most management frameworks.

31. (C) Less responsiveness to localised demands
Centralized organizations concentrate decision-making authority at the top, which can lead to a lack of responsiveness to localized demands. When a global headquarters makes all product choices, it may fail to account for cultural differences in regional markets. This lack of flexibility is a major disadvantage, as it prevents the firm from adapting quickly to the specific needs of different areas.

32. (A) Only I
A committee organization can hinder individual initiative because the tendency to delegate decisions to groups may discourage line executives from being inventive or taking charge. Decisions in a committee are often slow and lack a single point of accountability. While the first statement is correct, the second is not, as committee decisions usually lead to a split in responsibility.

33. (D) I, II, and III
The chain of command is the continuous line of authority connecting everyone from the top executive to the lowest-level employee. It is built on the scalar principle and unity of command, ensuring that responsibility and accountability are enforced throughout the organization. All three statements correctly describe the features and guiding principles that underpin an effective and transparent chain of command.

34. (D) Satisfying societal and psychological requirements of employees
Informal organizations satisfy the social and psychological needs of employees, which is considered an advantage rather than a disadvantage. In contrast, spreading rumors, resisting management changes, and focusing on

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individual interests are negative traits of informal structures. Understanding both the benefits and the drawbacks of these unofficial networks is essential for managers who want to maintain a healthy work environment.

35. (A) Keeping staff expert remuneration low
In a line and staff organization, staff members are typically highly skilled specialists who provide expert advice and research. Because of their specialized knowledge, these experts are often expensive to hire. Therefore, keeping staff expert remuneration low is not an advantage of this organizational model. Instead, the model focuses on improving coordination and providing essential support to the line executives.

36. (A) Circular chart
A circular chart displays the organizational hierarchy using concentric circles, with the highest-ranking position at the very center. Subordinates at the same level of significance are placed on circles equidistant from the middle. While visually appealing, this type of chart can often lead to confusion regarding the formal chain of command and the specific authority relationships between different organizational levels.

37. (A) P-2, Q-4, R-3, S-1
Unity of command ensures each worker reports to just one manager. The scalar principle establishes a transparent chain of authority from top to bottom. Authority is the legitimate power given to managers to make decisions. Span of control refers to the number of subordinates a manager oversees. Matching these principles with their correct descriptions is vital for understanding organizational design.

38. (B) I, II, IV, and V
Line and staff organizations feature both staff assistants and supervisors to support primary operations. Work is specialized based on needs, and authority flows through specific channels. Crucially, the line executive retains the commanding role while staff specialists are integrated into functional divisions to provide expertise. All these characteristics, except for avoiding confusion through a single channel, define this complex structure.

39. (D) Informal Organisation
Informal organization refers to the unofficial social structures and networks that employees create based on shared interests or personal relationships. These groups provide psychological fulfillment and help workers manage stress. Unlike the formal structure, which is consciously designed by management, the informal organization emerges naturally and plays a significant role in how information flows and how employees feel.

40. (D) I, II, III, and IV
Decentralized organizations face several disadvantages, including difficulty maintaining strategic consistency across all divisions. Administrative costs may increase due to the duplication of efforts in separate units. Furthermore, division managers might customize operations, leading to inconsistency, and divisions can become isolated "fiefdoms" that act independently of the main firm. All four statements accurately describe these potential drawbacks of decentralization.

41. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Organization charts and manuals can become rigid because incorporating changes takes time. As William H. Newman noted, the "sanctity of printed words" often leads to inflexibility, making it difficult for the organization to adapt quickly to new circumstances. This rigidity is a common criticism of formal documentation, as employees and managers may follow printed rules even when outdated.

42. (C) Gang plank
The "gang plank" is a management concept that allows employees to bypass the formal chain of command during urgent situations or emergencies. By contacting a higher-level official directly, a junior officer can resolve a critical issue more quickly than by following the standard vertical path. This flexibility is essential for rapid response while still maintaining overall organizational stability and accountability.

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43. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
In a functional organization, the principle of unity of command is generally not applied because employees receive instructions from multiple functional specialists. Each specialist has authority over their specific function throughout the firm. This means a single worker may be accountable to several different managers for different tasks, which is the core reason why unity of command is compromised.

44. (D) Functional Organisation
A functional organization is characterized by grouping work into specific departments like finance, marketing, and operations. In this structure, subordinates receive commands and guidance from multiple managers who are experts in their respective functional areas. This model emphasizes specialization and the use of expert knowledge, even though it can lead to confusion if authority lines are not clearly managed.

45. (C) It is written in the standard reading order, moving from left to right.
A horizontal chart presents the organizational hierarchy from left to right, matching the standard reading order of many cultures. This layout can make the chain of command and authority levels easier to understand at a glance compared to traditional vertical pyramids. It provides a logical and familiar visual flow that helps employees navigate the formal structure of the organization effectively.

46. (B) Managers spend more time with subordinates, promoting professional growth.
A narrow span of control involves a manager overseeing only a few subordinates. This allows the manager to spend significantly more time with each employee, providing personalized guidance and promoting professional growth. While a wide span offers more independence, the narrow span is beneficial for developing staff skills and ensuring high-quality performance through closer supervision and frequent interactions.

47. (B) As a strategic tool using the grapevine to communicate key information.
Informal organizations can serve as strategic tools for managers when they utilize the "grapevine" to gather information. By listening to casual employee conversations, a manager can identify dissatisfaction and adjust policies before problems escalate. In this way, the informal structure acts as an unofficial feedback mechanism that complements formal communication channels and helps maintain a positive work environment.

48. (A) P-4, Q-1, R-3, S-2
Decentralization offers advantages like fast decision-making, which allows managers to seize opportunities quickly. It improves employee morale by giving workers a say in decisions and utilizes management effectively by developing their knowledge across various fields. Additionally, it encourages investments in training highly skilled workers. Matching these advantages with their outcomes highlights how decentralization empowers lower levels of the firm.

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49. (B) I, III, IV, and V
Functional organizations break activities down into specialized units like finance or operations. The expert knowledge of functional managers improves monitoring, and standardizing work can lead to maximum output at lower costs. However, this structure is more complex than a line organization, and disagreements among equal-level supervisors can cause conflict. Statements I, III, IV, and V correctly describe these features.

50. (A) P-4, Q-1, R-2, S-3
Committee organizations have several drawbacks, including delays caused by lengthy discussions and the possibility of diversion to other topics. There is also a lack of secrecy, as involving many people increases the risk of sensitive information leaking. Finally, the division of accountability means that no single individual is held responsible for the group's decisions. All these points are correctly matched.

51. (A) P-2, Q-1, R-4, S-3
An organization manual contains several sections, such as the policy manual for overarching guidelines and the operational manual for daily procedures. The organizational manual details authority and division responsibilities, while the rules and regulations manual provides specific mandatory codes of conduct. Each section serves

a distinct purpose in documenting the formal structure and ensuring consistency throughout the entire organization.

52. (D) Key decisions are made by a single individual who provides primary strategic direction.
A centralized business structure is one where key strategic and operational decisions are made by a single individual or a small group at the top of the hierarchy. This individual provides the primary direction for the entire firm. While this can lead to consistency, it often slows down decision-making and makes the organization less responsive to changes at lower levels.

53. (C) Line executives hold command, while staff supervisors guide and advise them.
In a line and staff organization, authority flows through two distinct channels. Line executives hold the formal power of command and are responsible for the primary business operations and decision-making. Staff supervisors, on the other hand, act as specialists who provide advice, guidance, and technical support to the line managers. This structure combines operational authority with expert knowledge.

54. (A) P-1, Q-2, R-3, S-4
Formal organizations are defined by official elements like written policies, procedures, and job descriptions. These are consciously designed by management to reach specific goals. In contrast, informal organizations consist of group norms, individual perceptions, and attitudes that develop naturally through social interactions. Matching these elements correctly is essential for understanding the dual nature of relationships and behavior within any company.

55. (A) Straightforward blame through single authority
Functional organizations are often complex and expensive because they require high-degree specialists. They can also suffer from weak disciplinary control and difficult coordination because employees report to multiple managers. The statement that they allow for straightforward blame through single authority is incorrect; the split authority in this model actually makes it much harder to assign blame to one person.

56. (A) Vertical chart - Hierarchical pyramid from top to bottom
Vertical charts represent the organizational levels as a hierarchical pyramid from top to bottom. This is the most common way to visualize a formal structure. Master charts display the entire structure, while supplementary charts provide detail on specific departments. Horizontal charts follow a left-to-right reading order. The terminology used to describe these visual tools is essential for clear and formal organizational communication.

57. (B) I and III
Organization charts can be vertical, horizontal, or circular. A vertical chart shows the hierarchy as a pyramid from top to bottom. A circular chart places the highest authority at the center of concentric circles. However, a horizontal chart is defined by reading from left to right, rather than breaking the chain into horizontal sections. Thus, statements I and III are correct.

58. (C) Assertion (A) is true, but Reason (R) is false.
Large businesses often use line-staff structures to gain expertise while maintaining authority. In this model, line executives keep the ultimate commanding role and decision-making power. The reason provided is false because it incorrectly states that staff members have absolute control and line executives are limited to advice. In reality, it is the staff who advise and the line who command.

59. (C) A network of social groups created by individuals in various positions.
An informal organizational structure is a network of social groups and personal relationships created naturally by individuals within a business. It does not follow a formal hierarchy or predetermined chain of command. These social connections are based on shared interests and help satisfy the psychological needs of employees, often influencing the workplace culture more than the official formal structure.

60. (B) Participatory Management
Participatory management is demonstrated when a board forms a committee of specialists from different areas to resolve complex issues democratically. This approach allows competent people from various levels to contribute to

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management activities and decision-making. By involving a group rather than a single person, the organization benefits from diverse perspectives and expert knowledge, which is a key advantage of committee organization.

61. (A) P-3, Q-1, R-2, S-4
Organizational cultures vary significantly. Clan culture is like a family, focusing on collaboration. Adhocracy culture is energetic and risk-taking. Market culture is competitive and success-oriented. Hierarchy culture emphasizes formal protocols and predictability. Matching these four types with their characteristics helps in understanding how different work environments operate and what values they prioritize to achieve their specific goals and objectives.

62. (A) Coerciveness
Coerciveness is a source of authority based on the ability to instill fear and use punishment to ensure compliance. When a manager threatens employees with termination or demotion for not following orders, they are relying on this power. While effective for short-term compliance, it often damages morale and long-term productivity compared to authority based on expertise or legitimate status within the hierarchy.

63. (A) Vertical chart - Hierarchical pyramid from top to bottom
Vertical charts are the standard way to represent a hierarchical pyramid, showing authority flowing from the top executive down to the staff. Master charts provide a view of the entire organization, while supplementary charts focus on specific units. Horizontal charts follow a left-to-right reading order. The terminology used to describe these visual tools is essential for clear and formal organizational communication.

64. (C) Retraining personnel and engaging customers via social media polls
Low customer satisfaction can be addressed by retraining personnel to improve their service skills and engaging with customers through modern channels like social media polls. This proactive approach helps the business understand client expectations and fix service gaps. Using outdated strategies or relying on unofficial grapevine communication is unlikely to solve systematic problems with product quality or customer support services.

65. (A) The subordinate can easily delegate this responsibility to anyone else.
Responsibility is the moral and functional obligation of a subordinate to complete tasks assigned by a superior. It flows upward in the hierarchy. Importantly, responsibility cannot be delegated to anyone else; the person assigned the task remains accountable for its completion. While authority can be shared, the individual responsibility for performance is a fixed commitment between the employee and the manager.

66. (C) II, III, I
Kurt Lewin's change management model consists of three sequential phases. It begins with Unfreeze, where the organization prepares for change by breaking down existing mindsets. This is followed by the Change phase, where new behaviors and processes are implemented. Finally, the Refreeze phase stabilizes the organization in its new state to ensure the changes are permanent and sustainable over time.

67. (D) I, II, III, and IV
Organization charts and manuals are essential management tools that provide clarity on structure and authority. They help avoid overlapping activities and duplicate work while resolving conflicts by showing formal relationships. Furthermore, they serve as useful reference guides for outsiders. All four statements correctly highlight how these documents improve efficiency, communication, and overall transparency within a professional business environment.

68. (B) I, II, and IV
Authority is the legitimate power, backed by law or formal settings, that allows a superior to issue commands. It is the foundation for getting work done and flows downward through the hierarchy. While it has objective roots, its exercise is often influenced by the manager's personality. However, the ability to make decisions is always linked to holding power, not detached.

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69. (D) I, II, III, IV, and V
Losses in productivity can stem from many factors, including insufficient staffing, disinterested or distracted workers, and sudden structural changes. Unachievable deadlines and ineffective management also contribute significantly to a decline in output. Recognizing all these causes—from human behavior to administrative failures—is crucial for any organization trying to maintain high efficiency and meet its long-term strategic goals and objectives.

70. (C) It emphasizes productivity and predictability through coordination.
A hierarchy culture is characterized by a formal work environment that prioritizes productivity, predictability, and stability. It relies on coordination, stringent protocols, and clearly defined rules to manage operations. Unlike adhocracy or clan cultures, the focus here is on maintaining internal control and ensuring that all activities are executed according to established procedures to achieve consistent results for the firm.

71. (B) I, II, IV, V
John Kotter's change management model includes eight phases, such as creating a sense of urgency, getting the vision right, and concentrating on short-term goals. It also emphasizes adapting to new circumstances to anchor the change. However, refraining from ignoring conflict is a general strategy rather than a specific stage in Kotter's original framework. Thus, statements I, II, IV, and V.

72. (A) Only I
A formal organization focuses on efficiency and goal achievement, but its strict adherence to scalar chains can delay action and decision-making. This structure does not prioritize psychological or social needs; that is a characteristic of informal organizations. Therefore, the first statement correctly identifies a disadvantage of formality, while the second statement describes a trait of the informal structure instead.

73. (D) The manager bears the ultimate accountability to ensure the work gets done.
Ultimate responsibility lies with the manager, who remains accountable for ensuring that work is completed effectively by the staff. Even if the manager delegates the physical performance of a task to a subordinate, they cannot transfer this final accountability. The manager must oversee the process and bear the consequences of the outcome, distinguishing their role from the operating responsibility of workers.

74. (C) The superior cannot absolve himself of the obligation to perform.
When a superior delegates authority to a subordinate, they grant the power to give orders and perform tasks. However, the superior cannot absolve himself of the ultimate obligation to ensure the work is done. Responsibility remains with the manager, who is still accountable to their own superiors for the final results. Delegation of power does not mean delegation of responsibility.

75. (A) P-3, Q-4, R-1, S-2
Evaluating change requests involves analyzing several facets. Scope determines the impact on project boundaries, while timing considers the effect on the overall schedule. Costing looks at how rushing activities might change expenses, and quality examines how schedule acceleration might lead to flaws. Matching these facets with their correct descriptions ensures that changes are managed without compromising the project's integrity or budget.

76. (D) A book detailing aims, authority, responsibilities, and procedures.
An organization manual is a comprehensive book that details the aims, authority, responsibilities, and procedures of a firm. It serves as a formal guide for all members, providing more depth than a visual chart. By documenting rules and relationships, the manual ensures consistency and serves as a reference for both daily operations and long-term strategic alignment within the organizational structure.

77. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Organizations can become stagnant and lose their innovative edge if they continue to rely on archaic business strategies. A culture that does not encourage creativity or risk-taking stifles new ideas. Both the assertion and the reason are true, explaining why maintaining a modern, creative environment is essential for long-term success.

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Without intentional change, old habits and rules will prevent innovation.

78. (D) The Adhocracy Culture
An adhocracy culture is characterized by high energy, inventiveness, and a willingness to take calculated risks. It prioritizes individual ingenuity and experimentation over rigid protocols and formal procedures. Tech startups often adopt this culture to foster innovation and respond quickly to market changes. In such environments, the primary bond holding the organization together is a commitment to experimentation and being first.

79. (A) Only I
Authority and responsibility share a very close relationship and should be treated equally within an organization. For an individual to be effective, they must have the authority necessary to fulfill their responsibilities. While authority is partially objective, its exercise is inevitably influenced by subjective factors like a manager's personality and leadership style. Therefore, only the first statement regarding their relationship is correct.

80. (D) Expertise
Expertise is a source of authority based on an individual's specialized knowledge and skills in a particular field. Subordinates follow the instructions of an expert, such as a university professor, because they respect and value that person's superior understanding of the subject matter. This type of power is not dependent on formal titles or the ability to punish but on intellectual respect and recognition.

81. (C) Interdependency causes the whole model to fail if one part fails.
The McKinsey 7S framework consists of interconnected elements like strategy, structure, skills, and shared values. A major disadvantage is that if one part is neglected, the entire change initiative can fail due to their interdependency. In this scenario, focusing only on the hard elements while ignoring the soft ones led to a collapse, illustrating how the model requires holistic implementation.

82. (A) Corporate culture
Corporate culture is the term commonly used to describe organizational culture. It refers to the shared values, attitudes, beliefs, and behaviors that define the work environment of a company. This culture can be seen in both written and unwritten rules and plays a major role in how employees interact and how the business achieves its strategic goals and objectives over time.

83. (D) I, II, and III
Authority is the legitimate power an individual holds over others within a formal setting. It flows in a downward direction, giving a superior the legal right to issue commands to their subordinates. All three statements correctly define the characteristics and flow of authority, highlighting its role as the foundation upon which organizational work is structured and managed across various hierarchical levels.

84. (C) Role Specification
Role specification issues occur when a candidate is placed in a position they are not qualified for, often leading to disrupted workflows. In this scenario, nepotism and a poor interview process resulted in an unqualified hire for a technical role. Ensuring that the right person is in the right job is critical for maintaining organizational efficiency and avoiding performance problems.

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85. (D) Assertion (A) is false, but Reason (R) is true.
Operating responsibility refers to the obligation of the person actually performing the work to complete it. However, the assertion is false because the person with operating responsibility is not ultimately responsible for the staff; that is the manager's role. The reason correctly identifies that operating responsibility lies with the individual doing the task. Therefore, the assertion is false.

86. (B) Lack of a predetermined chain of command for the flow of information.
The informal organization is characterized by a lack of a predetermined chain of command for the flow of information. It arises naturally from social interactions rather than being consciously structured by management. This network allows for communication through unofficial channels, satisfying social needs that the formal structure—with its rigid job descriptions and official hierarchies—might not address within the environment.

87. (B) Developmental Change
Developmental change refers to any modification that improves established processes and procedures within an organization. It is the most common type of change, focusing on refining existing operations rather than completely transforming the firm or moving through a major transition. By making incremental improvements, a company can stay efficient and competitive without the disruption caused by more radical shifts in structure.

88. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Organizational culture is one of the most difficult things to change because it is deeply rooted in both written and unwritten rules developed over many years. Each company has a unique culture that shapes employee behavior and attitudes. Because these values are so ingrained, management faces significant challenges when trying to shift the culture during a merger or major transformation.

89. (B) Turnover
Turnover refers to the rate at which employees leave an organization and are replaced by new staff. High turnover is often caused by dissatisfaction with pay, management, or the work environment. In this case, the financial institution's constant need to hire new personnel because employees feel unheard and underpaid is a classic example of a turnover problem within the organization.

90. (A) P-2, Q-3, R-4, S-1
Sources of authority have different foundations: legitimate authority comes from status and cultural obligations; coerciveness is based on fear and punishment; expertise derives from specialized knowledge; and referent authority is founded on the admiration of a leader held in high esteem. Matching these correctly is vital for understanding how power is wielded and perceived by employees within different organizational settings.

91. (C) I and III
Conflict management requires specific skills, such as practicing empathy and understanding body language, to resolve disputes effectively. These skills help managers grasp the underlying emotions and non-verbal cues involved in a disagreement. In contrast, fault-finding or denunciation is counterproductive and usually escalates the conflict. Therefore, only empathy and the interpretation of body language are correct resolution skills.

92. (C) Denial
In the Kubler-Ross model, denial is the stage where individuals refuse to believe that a major change, such as a corporate merger, is happening. They may experience numbness and create a psychological buffer to protect themselves from the initial shock. This is a common early reaction as people process unexpected or difficult news before moving through subsequent stages of adjustment.

93. (D) A stands for Action - the physical implementation of the change.
The ADKAR model for change management stands for Awareness, Desire, Knowledge, Ability, and Reinforcement. The statement that A stands for Action is incorrect; in this model, A actually stands for Ability, which refers to the individual's capability to implement the required change. Reinforcement, Desire, and Knowledge are all correctly defined parts of this goal-oriented tool for managing transformation.

94. (C) Maintaining vigilance and following up on the situation
Maintaining vigilance and following up on a situation is a necessary step for ensuring that a conflict is truly resolved. After a solution is identified, a manager must monitor the parties involved to check if they are adhering to the agreed-upon steps. This follow-up prevents the issue from resurfacing and ensures that the resolution is permanent and effective.

95. (A) To improve learning and group outcomes, such as performance.
The primary goal of conflict management is to improve group outcomes and organizational learning, which ultimately boosts performance. While conflicts cannot be eliminated entirely, managing them effectively reduces their negative impact and encourages diverse ideas. Rather than ignoring disputes or using rigid discipline, a manager seeks to resolve disagreements in a way that benefits the team's overall productivity.

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96. (D) I, II, III, and IV
Bridges' Transition Model focuses on the internal psychological process people go through during change. It distinguishes external change from internal transition and consists of three stages: Ending, Losing, and Letting Go; the Neutral Zone; and the New Beginning. All four statements correctly describe this model, which helps managers support employees through the emotional adjustments required during organizational shifts.

97. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
When resolving a dispute, organizing a meeting with all parties present is highly effective. This impartial setting allows everyone to air their differences and clarifies each person's role in the disagreement. By bringing people together, a manager can facilitate a direct resolution and ensure that the process is transparent and fair. Both the assertion and the reason are true.

98. (B) Refrain from Ignoring the Conflict
Managers must refrain from ignoring conflict, as avoiding a confrontation often makes the problem more severe. In this case, the manager's hope that the resource dispute would resolve itself naturally led to a worse situation. Addressing conflict early and directly is a key strategy for maintaining team cohesion and preventing small disagreements from growing into major organizational problems.

99. (D) Nudge Theory
Nudge theory focuses on using gentle prompts and positive reinforcement to influence behavior, rather than using direct mandates or punishments. By explaining influences and encouraging adoption through supportive means, management is nudging employees toward a new behavior. This approach is often more effective than traditional top-down commands, as it encourages voluntary compliance and reduces resistance to change within firm.

100. (D) Delegate the conflict to an external department
Top strategies for conflict resolution include explaining the issue, organizing meetings between parties, and maintaining vigilance through follow-up. Delegating the conflict to an external department is not one of the primary strategies listed for managers. Successful resolution requires the manager's direct involvement to address the root causes of the dispute and ensure that a mutually acceptable solution is implemented.

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CHAPTER 04
Staffing

May/June 2016

1. Match the characteristic of the nature of staffing in List I with its corresponding description in List II.

List I: (Characteristic)

P. Concentrated on Individuals
Q. Oriented Towards Development
R. An all-pervasive function
S. An ongoing procedure

List II: (Description)

1. Implemented in both for-profit and not-for-profit businesses at all levels.
2. Involves constant vigilance and awareness of human relations in every aspect.
3. Encourages each worker to contribute to the fullest extent possible toward goals.
4. Focuses on maximising the potential, interests, and talents of employees.

(A) P-4, Q-3, R-2, S-1
(B) P-1, Q-2, R-3, S-4
(C) P-2, Q-1, R-4, S-3
(D) P-3, Q-4, R-1, S-2

Oct/Nov 2009

2. Read the following Assertion (A) and Reason (R) and select the correct option.

Assertion (A): Staffing requires a method based on an open system.

Reason (R): Staffing is carried out within the company, which, in turn, is linked to the environment outside the company.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2023

3. What is the fundamental outcome that management aims to ensure through the planning of human resources and the staffing process?

(A) Reducing total operational expenditure on worker compensation
(B) Removing the necessity for ongoing technical skill training
(C) Ensuring the organisation makes the best use of its people
(D) Outsourcing the selection process to external hiring firms

Oct/Nov 2018

4. Analyze the following situation and answer the question:

A tech firm needs to hire a specialist but does not want to pay upfront fees to an agency. They agree that the agency will only be paid if the candidate they present actually accepts the job offer. This scenario exemplifies which type of recruiting?

(A) Reverse Recruiting
(B) Internal Recruiting
(C) Contingency Recruiting
(D) Retained Recruiting

May/June 2007

5. Read the following Assertion (A) and Reason (R) and select the correct option.

Assertion (A): The establishment of a separate personnel department means that departmental managers no longer need to execute staffing roles.

Reason (R): The personnel department is established to assist managers of all levels, but the managers in charge remain ultimately responsible for hiring decisions.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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Oct/Nov 2025

6. Which of the following is an exception to the advised methods for conducting a successful recruitment procedure?
(A) Searching within your organisation before looking outside.
(B) Waiting exclusively for active job seekers to respond to job board advertisements.
(C) Creating contacts with local university business schools.
(D) Checking social media sites like LinkedIn for passive candidates.

May/June 2012

7. The process of making an estimate of the quantity and type of personnel required, recruiting, developing, and increasing their competence is best defined as which of the following?
(A) Human Resource Procurement
(B) Staffing
(C) Strategic Talent Management
(D) Personnel Administration

Oct/Nov 2014

8. Analyze the following situation and answer the question:
A company initiates a wide-reaching campaign to encourage maximum applications for a vacant role. Following this, the HR team systematically rejects unqualified applicants based on strict criteria. The initial campaign and the subsequent rejection phase represent which two facets respectively?
(A) Training and Selection
(B) Recruitment and Selection
(C) Selection and Recruitment
(D) Recruitment and Training

May/June 2019

9. Which of the following accurately distinguishes between staffing and recruiting?
(A) Staffing is terminating staff while recruiting is training them.
(B) Staffing is hiring the best fit while recruiting is finding applicants.
(C) Staffing is finding applicants while recruiting is final appointment.
(D) Staffing is outsourced while recruiting is done by line managers.

Oct/Nov 2006

10. Read the given statements regarding the nature of staffing and select the correct option.
I. The process of hiring new employees is an ongoing one that never comes to a conclusion.
II. Staffing is an essential component of general management but is restricted to the human resource department.
(A) Only Statement I is correct
(B) Only Statement II is correct
(C) Both Statement I and Statement II are correct
(D) Neither Statement I nor Statement II is correct

May/June 2021

11. Match the step in the selection process in List I with its corresponding action in List II.
List I: (Step)
P. Formal Interview
Q. Verification of References
R. Medical Tests
S. Final Selection and Appointment
List II: (Action)
1. Checking with an individual to gain information regarding the candidate's prior experience and leadership.
2. Determining in great depth a candidate's skill set and providing information regarding the work profile.
3. Delivering a letter detailing terms of employment, working hours, and remuneration.
4. Determining whether potential applicants are physically and psychologically fit to undertake the tasks.
(A) P-1, Q-2, R-3, S-4
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-1, R-4, S-3

Oct/Nov 2010

12. Read the following Assertion (A) and Reason (R) and select the correct option.
Assertion (A): The hiring process is considered the most important part of any other managerial role.
Reason (R): Managers are responsible for building an organisation through the process of recruiting, selection, and development of individuals as capable employees.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

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(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2005

13. Match the significance of staffing in List I with the corresponding example in List II.
List I: (Significance)
P. Recognizes Competent Staff
Q. Enhancement of Overall Performance
R. Ongoing Capability for Survival and Development
S. Optimal Employment of Human Resources
List II: (Example)
1. Conducting succession planning for managerial positions during technological changes.
2. Identifying departments facing staff shortages and finding suitable people for them.
3. Ensuring sufficient teachers are working so every individual class has an assigned teacher.
4. Appointing persons with integrity and knowledge in the Purchase Department to increase efficiency.
(A) P-2, Q-4, R-1, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-3, R-2, S-1

Oct/Nov 2022

14. Identify the correct pair regarding the impact of environments on staffing.
(A) Internal Environment - Government policies and job exchanges
(B) External Environment - Promotion and demotion policies
(C) Internal Environment - Transfer policies and enterprise's employee-related policies
(D) External Environment - Internal recruitment through company promotions

May/June 2018

15. Consider the following pieces of advice for a successful recruitment procedure:
I. Always hire external candidates as they bring superior culture to the company.
II. Contact passive applicants who are not currently seeking a new job.
III. Hire the person already excelling in similar jobs as a history of success is a strong predictor.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) I and III only
(C) I, II, and III
(D) II and III only

Oct/Nov 2016

16. Which of the following activities is excluded from the purview of staffing as a primary process?
(A) Supply chain procurement
(B) Personnel planning
(C) Training and development
(D) Compensation of workers

May/June 2014

17. Match the type of recruitment in List I with its definition in List II.
List I: (Type of Recruitment)
P. Retained Recruiting
Q. Contingency Recruiting
R. Outplacement Recruiting
S. Reverse Recruiting
List II: (Definition)
1. Recruiting company is compensated only when a candidate is offered and accepts a position.
2. An employee is urged to seek employment with a new business that offers a better fit.
3. The organisation pays an upfront fee and commits to an exclusive partnership with the firm.
4. Sponsored by employers to equip people who have lost their jobs with tools to locate new employment.
(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-3, R-2, S-1
(D) P-2, Q-4, R-1, S-3

Oct/Nov 2007

18. Staffing is described as having a multidisciplinary character. Which of the following best reflects this concept?
(A) Utilizing theories from various social and behavioral sciences
(B) Relying on quantitative data derived from financial audits
(C) Focusing on the principles of physical

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engineering and robotics
(D) Working independently of established academic research fields

May/June 2025

19. Consider the following statements regarding factors affecting the requirement of quantum and types of managers:
I. The requirement is dependent on the size of the business.
II. It depends on the complexity of the organisation structure.
III. It depends on the plans for expansion.
IV. It depends on the rate of turnover among managerial personnel.
V. A specific regulation legally governs the exact relationship between the number of managers and total staff members.
Which of the above statement(s) is/are correct?
(A) I, III, IV, and V
(B) II, III, IV, and V
(C) I, II, III, IV, and V
(D) I, II, III, and IV

Oct/Nov 2019

20. Which of the following accurately defines the facet of selection within staffing?
(A) Recommending candidates after reviewing job applications
(B) Improving employees' specific knowledge and abilities
(C) Attracting a large pool of people with ideal profiles
(D) Implementing reward systems based on performance metrics

May/June 2009

21. Arrange the following steps in the selection process in the correct chronological order:
1. Preliminary Interview
2. Taking Applications
3. Examining the Applications
4. Employment Tests
(A) 2, 3, 1, 4
(B) 1, 2, 3, 4
(C) 3, 1, 2, 4
(D) 4, 2, 1, 3

Oct/Nov 2011

22. Which of the following is not an important objective of staffing?
(A) To design policies for personnel matters, such as transfer, promotion, and related work.
(B) To ensure the organisation solely focuses on maximizing profit margins through cost-cutting in hiring.
(C) To create a positive and productive working connection between employers and employees.
(D) To ensure that the demands of the workers are met to the workers' satisfaction.

May/June 2010

23. Identify the incorrect statement regarding staffing as a distinct managerial function.
(A) Staffing is seen as a separate managerial job.
(B) Previously, several management specialists believed staffing to be a component of organising.
(C) In modern times, findings from several distinct research projects acknowledge staffing as a significant part of management.
(D) Staffing is merely a significant component of planning and has no independent standing.

Oct/Nov 2024

24. Arrange the following primary stages of the recruitment process in the correct chronological order:
1. Publicising the position
2. Drafting a job description
3. Determining the need for hiring
4. Conceiving a recruitment strategy
(A) 3, 2, 4, 1
(B) 3, 4, 2, 1
(C) 4, 3, 2, 1
(D) 2, 3, 1, 4

May/June 2017

25. Consider the following statements regarding the significance of staffing:
I. Staffing makes certain that only individuals with the necessary skills are hired.
II. Proper staffing prevents disruptions to work caused by inadequate staffing levels.
III. Staffing guarantees automatic compliance with all external governmental regulations.
IV. Staffing recognises employee contributions through ongoing performance reviews, maintaining positive morale.
Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) I, II, and IV

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(C) II, III, and IV
(D) I, III, and IV

Oct/Nov 2005

26. Identify the correct statement regarding the functions of staffing.
(A) Assigning hiring tasks to the top-level executive branch
(B) Prioritizing financial planning over all managerial roles
(C) Lowering job satisfaction through internal competition
(D) Obtaining qualified individuals for specific job positions

May/June 2020

27. Analyze the following situation and answer the question:
A manufacturing unit undergoing downsizing hires a consulting firm to provide resume reviewing and mock interviews for the employees being laid off, assisting them in transitioning into new jobs. This is an example of:
(A) Outplacement Recruiting
(B) Reverse Recruiting
(C) Retained Recruiting
(D) Recruiting for Staffing Agencies

Oct/Nov 2015

28. Consider the following statements regarding the salient features of staffing:
I. Unlike planning and organising, staffing entails the nomination of qualified individuals to a variety of jobs.
II. In modern times, staffing is acknowledged as a significant part of management rather than just a subcategory of organising.
III. The creation of a separate personnel department absolves the responsible line managers of their duty to perform staffing functions.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2013

29. An organisation decides to increase the number of managers in a specific department without expanding the physical size of the operation. According to the system approach, how can this be accomplished?
(A) Altering the external environment and competitors' policies
(B) Modifying the structure to expand authority delegation
(C) Converting the current organisation into a closed system
(D) Replacing the entire workforce at the exact same time

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Oct/Nov 2021

30. Analyze the following situation and answer the question:
An HR Manager is tasked with staffing a new branch. During recruitment, she ensures that hiring decisions are objective and fair, recognizing that her decisions directly impact the lives and dignity of the individuals applying. This approach directly illustrates which salient feature of staffing?
(A) Distinct Managerial Function
(B) Impact of Internal Environment
(C) An all-pervasive function
(D) Associated to Social Responsibility

May/June 2024

31. Analyze the following situation and answer the question:
A bank hires a large number of clerks and trains them in a distinct room designed exactly like the branch floor, complete with identical software and dummy cash counters, before they interact with actual customers. This method is specifically known as:
(A) Mentoring
(B) Job rotation
(C) Vestibule training
(D) On-the-job training

Oct/Nov 2008

32. Match the component of the SECI Model in List I with its corresponding application in List II.
List I: (Component)
P. Socialisation
Q. Externalisation
R. Combination
S. Internalisation
List II: (Application)
1. Directly applying what is learned to jobs outside a virtual environment.
2. Utilisation of chat rooms and allowing

employees to communicate while studying.
3. Teaching essential skills so employees can immediately put them to use in their work.
4. Regularly updating training using both employee feedback and subject matter experts.

(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-3, R-2, S-1
(D) P-3, Q-4, R-1, S-2

May/June 2006

33. Analyze the following situation and answer the question:
During a hiring process, a candidate is invited to sit with department heads to discuss in great depth their capacity to handle specific responsibilities, while the heads outline the exact expectations of the role. Which stage of the selection process is this?
(A) Preliminary Interview
(B) Formal Interview
(C) Verification of References
(D) Employment Tests

Oct/Nov 2017

34. Analyze the following situation and answer the question:
An employee and their supervisor have had frequent disagreements. To moderate the impact of the annual evaluation, HR introduces a mediator, allowing the employee to highlight their positive achievements before constructive criticism is offered. This is known as:
(A) 360-degree feedback
(B) Peer assessment
(C) Forced distribution method
(D) Negotiated appraisal

May/June 2008

35. Consider the following options available to a business regarding compensation and rewards to retain workforce:
I. Establishing the company as the industry leader in terms of salary.
II. Implementing a rigid, uniform pay scale that ignores personal requirements.
III. Using a person-based compensation structure.
IV. Making an obvious connection between retention and rewards (e.g., tying vacation hours to seniority).
Which of the above statement(s) is/are correct?
(A) I, III, and IV
(B) I, II, and III
(C) II, III, and IV
(D) I, II, and IV

Oct/Nov 2013

36. Consider the following methods of formal appraisal:
I. Evaluation of subordinates by a superior
II. Evaluation of subordinates by a group of superiors
III. Evaluation of a colleague by a group of peers
IV. Evaluation of bosses by subordinates
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV
(B) I and II only
(C) I, II, and III only
(D) I and IV only

May/June 2015

37. Read the given statements regarding selection interviews and select the correct option.
I. The preliminary interview is generic and held to exclude candidates who are utterly unfit for the organisation.
II. The formal interview is the first stage of the selection process and involves checking medical records.
(A) Only Statement I is correct
(B) Only Statement II is correct
(C) Both Statement I and Statement II are correct
(D) Neither Statement I nor Statement II is correct

Oct/Nov 2012

38. Analyze the following situation and answer the question:
Middle managers in a firm dismiss a newly launched employee satisfaction initiative as just another corporate chore that adds no real value, referring to it as "nice" but useless. This challenge in retention strategy is formally identified as:
(A) Absence of active support from the senior management
(B) Systematic failure in conducting comparative analysis
(C) Ineffective results from internal benchmarking tasks
(D) Perception of the programme as pointless "busywork"

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May/June 2011

39. The periodic examination of an employee's contribution to a company in terms of both job performance and overall contribution is defined as:
(A) Contingency recruiting
(B) Mentorship
(C) Vestibule training
(D) Performance appraisal

Oct/Nov 2020

40. Which of the following represents the guiding principle behind on-the-job training?
(A) "Theoretical mastery before practical application"
(B) "Off-site observation"
(C) "Classroom conceptualisation"
(D) "Learning by doing"

May/June 2022

41. Analyze the following situation and answer the question:
A supervisor keeps a logbook. Whenever an employee demonstrates exceptionally good or notably poor behaviour during a high-stress project, the supervisor immediately records it. During appraisal, these logs are used to provide feedback. Which method is this?
(A) Forced Distribution Method
(B) Critical Incidents Method
(C) Trait Analysis
(D) Confidential Records

Oct/Nov 2023

42. Why is training primarily necessary for the growth and success of a company?
(A) Providing a method to legally terminate underperforming staff
(B) Ensuring that the company never hires external candidates
(C) Increasing the skills and the productivity of the workers
(D) Replacing the need for orientation programs for new staff

May/June 2016

43. Consider the following benefits of Knowledge Management (KM):
I. Making knowledge accessible to support more innovative products and services.
II. Lengthening development cycles to ensure maximum accuracy.
III. Managing creative endeavours and educational growth.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

Oct/Nov 2009

44. Analyze the following situation and answer the question:
A HR manager wishes to implement a retention strategy. As the first phase, they conduct a turnover analysis, perform a needs assessment, prepare an action plan, execute the techniques, and evaluate the results. Which stage of implementation does this sequence represent?
(A) Benchmarking
(B) Dealing with common problems
(C) Formulating career strategy
(D) Laying the groundwork

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May/June 2023

45. Identify the incorrect statement regarding the disadvantages of performance appraisal.
(A) The failure of performance evaluation can be caused by the application of elements that are inaccurate to the situation.
(B) When evaluating performance, it is possible to gloss over important aspects that are accountable for that performance.
(C) Aspects like attitude and initiative are highly precise and exceptionally easy to evaluate objectively.
(D) Managers carrying out the appraisal sometimes lack the necessary qualifications to make an accurate evaluation.

Oct/Nov 2018

46. Identify the correct statement regarding the importance of the selection process.
(A) A company's workforce capabilities have no correlation to the measure of how successful the company can be.
(B) Industrial accidents will substantially fall in numbers when the right technical staff is engaged for the right jobs.
(C) Hiring unqualified personnel results in optimal employment and increased resource efficiency.
(D) Final selection letters are only issued verbally without stating remuneration or leave benefits.

May/June 2007

47. Match the type of performance appraisal in List I with its description in List II.

List I: (Type)

P. Self-evaluation
Q. Peer assessment
R. 360-degree feedback
S. Negotiated appraisal

List II: (Description)

1. Involves a mediator and allows the subject to present first to minimise adversarial aspects.
2. Incorporates comments from the participant, supervisor, and peers.
3. Individual employees evaluate their own behaviour and performance.
4. A rating given by the workgroup or other co-workers.

(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-4, R-2, S-1
(C) P-4, Q-3, R-2, S-1
(D) P-2, Q-1, R-4, S-3

Oct/Nov 2025

48. Identify the incorrect pair regarding types of training.

(A) On-the-job Training - Job rotation
(B) Vestibule training - Training at the actual workstation
(C) Off-the-job Training - Workshops and seminars
(D) On-the-job Training - Mentoring

May/June 2012

49. Analyze the following situation and answer the question:

A company conducts an online training course. Upon completion, employees are given assignments to physically test their new expertise on the actual shop floor to develop new forms of learning. Under the SECI model, this reflects:

(A) Externalisation
(B) Combination
(C) Internalisation
(D) Socialisation

Oct/Nov 2014

50. Read the following Assertion (A) and Reason (R) and select the correct option.

Assertion (A): Top leadership must convey to managers and supervisors the message that employees are essential to the long-term survival of the organisation.

Reason (R): Managers and employees will continue to be in the dark regarding the genuine value employees bring to the organisation if senior management does not accept primary responsibility for employee retention.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2019

51. Match the Past-Oriented Method of appraisal in List I with its feature in List II.

List I: (Method)

P. Rating Scales
Q. Trait Analysis
R. Forced Choice Method
S. Critical Incidents Method

List II: (Feature)

1. Rater indicates which block of statements is true or false, eliminating personal bias.
2. Checklist of statements of traits in Yes/No based questions.
3. Focuses on specific behaviours that make a difference, recorded by supervisors as they occur.
4. Several numerical scales representing job related performance criteria from excellent to poor.

(A) P-4, Q-2, R-1, S-3
(B) P-1, Q-3, R-4, S-2
(C) P-2, Q-4, R-3, S-1
(D) P-3, Q-1, R-2, S-4

Oct/Nov 2006

52. Consider the following benefits attributed to training:

I. Boosts employee morale
II. Decreased requirement for supervision
III. Reduction in the number of accidents
IV. Increased promotion chances
V. Increased productivity

Which of the above statement(s) is/are correct?

(A) I, II, III, and V
(B) II, III, IV, and V
(C) I, III, IV, and V
(D) I, II, III, IV, and V

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May/June 2021

53. Analyze the following situation and answer the question:
A company discovers that its staff turnover is high. Research indicates that workers feel their tasks are insignificant and they do not take pride in the company. Which retention factor is most directly lacking here?
(A) Fair Supervision
(B) Compensation and rewards
(C) Employee involvement
(D) Training and development

Oct/Nov 2010

54. Performance reviews can be carried out at any time, but which of the following are the most common intervals for doing so?
(A) Weekly, bi-weekly, or monthly
(B) Only once every five years
(C) Annually, semi-annually, or quarterly
(D) Strictly at the time of retirement

May/June 2005

55. The processes of generating, exchanging, utilising, and managing information and knowledge inside an organisation are collectively referred to as:
(A) Knowledge Management
(B) Change Management
(C) System Approach
(D) Human Resource Development

Oct/Nov 2022

56. Read the following Assertion (A) and Reason (R) and select the correct option.
Assertion (A): People's levels of job satisfaction and quality of output tend to rise when they find employment in fields in which they excel.
Reason (R): Finding employment in fields they excel in leads to more personal fulfilment, fostering good morale and motivation.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2018

57. Consider the following objectives of the employee performance appraisal system:
I. Maintaining records needed to establish the employee's compensation.
II. Discovering the strengths and limitations of the employees.
III. Providing access to existing potential for future expansion.
IV. Providing essential feedback regarding performance.
V. Shaping the employees' approach to work and instilling responsibility.
Which of the above statement(s) is/are correct?
(A) I, II, III, IV, and V
(B) I, II, III, and IV
(C) II, III, IV, and V
(D) I, III, IV, and V

Oct/Nov 2016

58. Match the area of effective practice in retention in List I with its corresponding strategy in List II.
List I: (Area of Practice)
P. Hiring
Q. Possibilities of Socialising
R. Compensation and rewards
S. Fair Supervision
List II: (Strategy)
1. Using a person-based structure to allow customization to specific requirements.
2. Giving applicants an accurate preview of the work they will be doing.
3. Concentrating on improving management practices and communication abilities.
4. Providing shared and individualised learning experiences and assigning role models.
(A) P-2, Q-4, R-1, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-1, R-2, S-3
(D) P-3, Q-4, R-1, S-2

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May/June 2014

59. Analyze the following situation and answer the question:
An organisation heavily invests in a Learning Management System (LMS) but fails to see performance improvements. Who must participate and be responsible for determining whether employees successfully meet key performance metrics using the LMS?

(A) The external software vendor
(B) The employees' peers
(C) The managers
(D) The independent auditors

Oct/Nov 2007

60. Read the following statements regarding benchmarking in retention implementation and select the correct option.
I. External benchmarking involves a company monitoring its own employee turnover rate over the course of a given period of time to spot upward trends.
II. Internal benchmarking compares a company's turnover rates to those of its industry and its competitors.
(A) Only Statement I is correct
(B) Only Statement II is correct
(C) Both Statement I and Statement II are correct
(D) Neither Statement I nor Statement II is correct

May/June 2025

61. Identify the correct statement regarding the benefits of Human Resource Development (HRD).
(A) Fostering a culture of distrust and internal competition
(B) Guaranteeing that the firm never adapts to external shifts
(C) Collecting objective data on programmes to aid planning
(D) Diminishing the employees' ability to solve problems alone

Oct/Nov 2019

62. Which of the following models divides the process of change into three main stages known as "unfreeze-change-refreeze"?
(A) Lewin's Change Management Model
(B) Nonaka and Takeuchi's SECI Model
(C) Kotter's 8-Step Change Model
(D) Peter Drucker's MBO Model

May/June 2009

63. Consider the following steps in the procedure for Behaviourally Anchored Rating Scales (BARS):
I. Generate Critical Incidents
II. Develop Performance Dimensions
III. Reallocate Incidents
IV. Scale of Incidents
V. Develop Final Instrument
Which of the above statement(s) is/are correct?
(A) I, II, III, IV, and V
(B) I, II, III, and V
(C) II, III, IV, and V
(D) I, III, IV, and V

Oct/Nov 2011

64. What is the most appropriate stance for a manager regarding overcoming obstacles during a period of change?
(A) Assuming that a perfect strategy removes all obstacles
(B) Reverting to the old methods when any obstacle arises
(C) Preparing for various outcomes without total guarantees
(D) Delegating obstacle management to external consultants

May/June 2010

65. Consider the following advantages of generation diversity:
I. Problem-solving through different perspectives.
II. Understanding diverse audiences.
III. Occasions for educational growth across generations.
IV. Fostering mentorship relationships.
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV
(B) I, II, and III
(C) II, III, and IV
(D) I, III, and IV

Oct/Nov 2024

66. Read the following Assertion (A) and Reason (R) and select the correct option.
Assertion (A): Stress is purely a personal experience and its levels cannot be scientifically measured.
Reason (R): The levels of stress can be easily measured by utilising a variety of physiological tests similar to those used in polygraph examinations.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.

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(D) Assertion (A) is false, but Reason (R) is true.

May/June 2017

67. Analyze the following situation and answer the question:
For selecting an employee for a first-level supervisory position, an organisation brings together several evaluators to observe the candidate in situational exercises like an in-basket exercise and management games. Which appraisal method is being applied?
(A) Management by Objectives (MBO)
(B) Behaviourally Anchored Rating Scales (BARS)
(C) Assessment Centre Approach
(D) Forced Choice Method

Oct/Nov 2005

68. Identify the correct pair regarding the purview of industrial relations.
(A) Relationship between an employee and their personal physician - "Worker-health relations"
(B) Collective ties between various labour unions and management - "Union-management relations"
(C) Interactions strictly between consumers and marketing teams - "Market relations"
(D) Relations between a company and its raw material suppliers - "Supply chain relations"

May/June 2020

69. Which of the following is NOT a recognized driver of change?
(A) The individual hobbies and weekend activities of line managers.
(B) Pressures driving the shift that is occurring.
(C) Pressures from within, such as the introduction of new leadership.
(D) Pressures from the outside world, such as new technology or a new competitor.

Oct/Nov 2015

70. Consider the following best practices for working well with employees of varying ages:
I. Do not make any assumptions.
II. Avoid using labels.
III. Ensuring regular review of your own biases.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I, II, and III
(D) I and III only

May/June 2013

71. Analyze the following situation and answer the question:
An employee is suffering from a general deterioration in physical condition and feelings of depression due to work demands. The HR department decides to measure their stress levels using tests similar to polygraph exams. This indicates that:
(A) Measuring stress through various physiological tests
(B) Treating stress as a purely psychological concept
(C) Claiming stress measurement is impossible today
(D) Stating that only mental symptoms are caused by stress

Oct/Nov 2021

72. Analyze the following situation and answer the question:
A manager and an employee are constructing a Performance Plan. They have agreed upon Key Results Areas and Performance Objectives. What is the immediate next step in this four-step process?
(A) Constructing specific action plans
(B) Agreeing on targets and indicators
(C) Formulating career development plans
(D) Identifying various critical incidents

May/June 2024

73. Analyze the following situation and answer the question:
During a period of rapid economic growth, a manufacturing plant sees harmony between its workers and management. However, a sudden market crash leads to several wage cuts, resulting in immediate union strikes. This scenario illustrates that:
(A) Industrial progress is possible without labour cooperation
(B) Economic prosperity always poisons various labour relations
(C) Trade unions only exist during sudden economic recessions
(D) Business cycles determine the health of industrial relations

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Oct/Nov 2008

74. Which of the following is the best explanation for why a multigenerational workforce is advantageous for problem-solving?
(A) Older generations dictating the answer based on seniority
(B) Younger generations relying on AI to bypass human error
(C) Each generation having different ways to solve problems
(D) Problem-solving becoming identical across all departments

May/June 2006

75. A list of long and short-term goals that employees set for themselves in either their current role or pre-emptively for their future job is known as:
(A) Management by Objectives (MBO)
(B) Key Result Area (KRA)
(C) Performance Appraisal Report
(D) Career Development Plan (CDP)

Oct/Nov 2017

76. Which of the following is not one of the four categories an employee is given under the Assessment Centre Approach method?
(A) More than acceptable
(B) Less than acceptable
(C) Unacceptable
(D) Acceptable

May/June 2008

77. Read the following Assertion (A) and Reason (R) and select the correct option.
Assertion (A): When guiding a company through change, a manager must be competent in explaining the change to two completely different audiences.
Reason (R): One category includes staff members who need to understand why the change is necessary, how their jobs will be affected, and have their worries alleviated.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2013

78. Identify the incorrect pair regarding types of Human Resource Development.
(A) On-the-job training - Learning the facets of a work while actually performing the tasks
(B) Work shadowing - An employee watches another employee perform duties to acquire abilities
(C) Intellectual/Professional growth - Attending classes at a university or certification programmes
(D) On-the-job training - Participating exclusively in online webinars from home

May/June 2015

79. The change process consists of everything that takes place between Point A and Point B, entailing processes categorised into which three stages?
(A) Preparation, Execution, and Subsequent Action
(B) Socialisation, Externalisation, and Internalisation
(C) Recruiting, Selecting, and Training
(D) Appraising, Rewarding, and Retaining

Oct/Nov 2012

80. How does a recession typically impact industrial relations?
(A) Creating an uptick in employment levels and worker happiness
(B) Leading to harmony as various trade unions voluntarily end
(C) Having no effect as relations are independent of the cycle
(D) Poisoning labour relations through wage and job reductions

May/June 2011

81. What is the primary intention and goal of stress management?
(A) Eliminating all forms of physical activity in the workplace
(B) Identifying stressed employees for immediate termination
(C) Regulating stress levels to enhance daily functioning
(D) Ensuring employees never feel any emotion while at work

Oct/Nov 2020

82. The purpose of human resource development (HRD) is best described as:

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(A) Enhancing efficiency through coordinated initiatives
(B) Replacing manual labor with automated technology
(C) Evaluating physical health for medical record files
(D) Eliminating the need for any internal appraisals

May/June 2022

83. Analyze the following situation and answer the question:
A senior employee reports a younger colleague to HR because the younger colleague always wears headphones, assuming the colleague is being antisocial. HR discovers the younger colleague is listening to classical music to concentrate better. The senior employee failed in which practice?
(A) Providing outplacement recruiting
(B) Formulating a career strategy
(C) Vestibule training
(D) Ensuring regular review of your own biases

Oct/Nov 2023

84. Consider the following elements required when formulating a strategy for change:
I. Include a high-level overview of the reasons for change.
II. Describe the scope of the project.
III. Identify the main stakeholders and organise a team.
IV. Present a thorough roadmap of the tasks required to finish the project.
Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) II, III, and IV
(C) I, II, III, and IV
(D) I, III, and IV

May/June 2016

85. Read the following Assertion (A) and Reason (R) and select the correct option.
Assertion (A): Management and the trade union both need to approach the building of good industrial relations with a positive attitude.
Reason (R): Healthy industrial relations require mutual respect, understanding, goodwill, and acknowledgement of dignity to succeed.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2009

86. Read the following Assertion (A) and Reason (R) and select the correct option.
Assertion (A): Key Result Areas (KRAs) refer to general areas of outcomes or outputs for which the department's role is responsible.
Reason (R): KRAs are set of activities derived out of long-term strategic, multi-decade objectives.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2023

87. Consider the following steps in constructing a career strategy:
I. Do an in-depth analysis of your values, strengths, and motivators.
II. Be aware of your advantages.
III. Taking action is the first step.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) I, II, and III
(C) II and III only
(D) I and III only

Oct/Nov 2018

88. Analyze the following situation and answer the question:
A department head introduces a new young hire by saying, "Because she is a millennial, she will finally bring innovative ideas to our stagnant team." A veteran team member complains about this remark. Which best practice did the department head fail to observe?
(A) Acknowledge and celebrate differences
(B) Avoid using labels
(C) Focus on the people around you rather than trends
(D) Review online literature on millennials

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May/June 2007

89. Read the given statements regarding the stages of the change process and select the correct option.

I. Preparation involves getting the organisation and workers ready for the transition by explaining the long-term goal.

II. Follow-through is the responsibility of the change manager to ensure changes are carried out consistently with goals during the middle of the transition.

(A) Only Statement I is correct
(B) Only Statement II is correct
(C) Both Statement I and Statement II are correct
(D) Neither Statement I nor Statement II is correct

Oct/Nov 2025

90. The term "industrial relations" explains the relationship between employees and management which stems directly or indirectly from:

(A) Union-employer relationship
(B) Government and international trade laws
(C) Competitor-client relationships
(D) Supplier-vendor dynamics

May/June 2012

91. Match the Performance Appraisal method in List I with its corresponding disadvantage in List II.

List I: (Method)

P. Critical Incidents Method
Q. Forced Distribution Method
R. Rating Scales
S. Confidential Records

List II: (Disadvantage)

1. Assumption of normal distribution can be unrealistic; errors of central tendency may occur.
2. Rater's biases.
3. Highly secretive; ratings are subjective and can be manipulated; feedback only given for adverse entries.
4. Negative incidents can be prioritized, forgetting the positive ones; overly close supervision.

(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-3, R-4, S-1

Oct/Nov 2014

92. Identify the incorrect statement regarding off-the-job training.

(A) Taking place in settings outside the normal workstation
(B) Using workshops and seminars as examples of the method
(C) Being an inexpensive system for small training groups
(D) Mimicking actual conditions through vestibule training

May/June 2019

93. Identify the correct statement regarding the nature of staffing as an "all-pervasive function."

(A) Implementing staffing only in for-profit businesses
(B) Implementing staffing only in not-for-profit firms
(C) Requiring staffing only for the lowest level personnel
(D) Managing staffing in both for-profit and non-profit units

Oct/Nov 2006

94. Consider the following specific methods and tools used for knowledge management:

I. Software designed for group work with threaded conversations.
II. Workflow management systems.
III. Content management systems.
IV. Software for organising and arranging schedules.
V. Software for electronic forms of communication.

Which of the above statement(s) is/are correct?

(A) I, II, III, and V
(B) II, III, IV, and V
(C) I, II, III, IV, and V
(D) I, III, IV, and V

May/June 2021

95. Identify the incorrect statement regarding managing generation diversity.

(A) A multigenerational workforce is disadvantageous when identifying potential solutions.
(B) The workforce is growing increasingly diverse in terms of age.
(C) Each generation has its own distinct mannerisms and characteristics.
(D) An atmosphere with employees of varying

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ages is ideal for fostering mentoring relationships.

Oct/Nov 2010

96. Identify the correct statement regarding the advantages of the Behaviourally Anchored Rating Scales (BARS) technique.
(A) Providing judgments influenced by recent personal prejudice
(B) Establishing clear standards and providing good feedback
(C) Making the various dimensions highly dependent on each other
(D) Using an outdated military method for past-oriented tasks

May/June 2005

97. Read the given statements regarding types of recruiting and select the correct option.
I. Internal Recruiting is the process of filling open positions within a company with current staff members.
II. Retained Recruiting requires the organisation to pay an upfront fee and form an exclusive partnership with the recruiting firm.
(A) Only Statement I is correct
(B) Only Statement II is correct
(C) Both Statement I and Statement II are correct
(D) Neither Statement I nor Statement II is correct

Oct/Nov 2022

98. Which of the following is NOT one of the three primary facets of staffing?
(A) Recruitment
(B) Compensation
(C) Selection
(D) Training

May/June 2018

99. Identify the incorrect statement regarding the Confidential Records method of performance appraisal.
(A) Being used mostly by government departments and old firms
(B) Presenting the report in the form of a Confidential Report
(C) Having ratings that are highly subjective or manipulated
(D) Providing transparent and frequent feedback to the assessee

Oct/Nov 2016

100. Read the following Assertion (A) and Reason (R) and select the correct option.
Assertion (A): Training helps employees improve their abilities and effectiveness.
Reason (R): Improved abilities and effectiveness decrease their chances of being promoted, making them a stagnant liability to the organisation.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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ANSWERS

1. (D) P-3, Q-4, R-1, S-2
Staffing is characterized as an all-pervasive function because it is implemented across for-profit and not-for-profit organizations at all levels. It focuses on individuals by encouraging every worker to contribute fully. Development orientation aims to maximize employee potential and talents. Lastly, as an ongoing procedure, it involves constant vigilance regarding human relations across every operational aspect.

2. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Staffing necessitates an open system approach because organizations do not exist in isolation. The internal processes of hiring and development are deeply intertwined with the external environment, including labor markets and regulations. This linkage ensures that the organization can effectively adapt to external changes while maintaining efficient internal operations through proper recruitment and selection strategies.

3. (C) Ensuring the organisation makes the best use of its people
The fundamental goal of human resource planning and the staffing process is to ensure that the organization optimizes its human capital. By aligning individual skills with specific organizational needs, management can achieve higher productivity and efficiency. This process involves strategic recruitment and development to guarantee that every employee contributes effectively toward the collective goals of the enterprise.

4. (C) Contingency Recruiting
Contingency recruiting is a specific hiring model where the recruitment agency receives payment only after a candidate they introduced is successfully hired and accepts the offer. This approach minimizes financial risk for the firm, as no upfront fees are required. It incentivizes agencies to find the most suitable candidates quickly to ensure a successful placement and compensation.

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5. (D) Assertion (A) is false, but Reason (R) is true.
Establishing a dedicated personnel department does not relieve departmental managers of their staffing duties. While the specialized department provides valuable support and expertise, line managers remain ultimately responsible for final hiring decisions within their own teams. This collaborative structure ensures that staffing remains a core managerial function across all organizational levels while utilizing specialized human resource assistance.

6. (B) Waiting exclusively for active job seekers to respond to job board advertisements.
A successful recruitment procedure should not rely solely on active job seekers who respond to advertisements. Proactive strategies, such as contacting passive candidates on professional networks or building relationships with universities, are essential for finding high-quality talent. Relying exclusively on job boards limits the talent pool and may result in missing highly qualified individuals not currently looking.

7. (B) Staffing
Staffing is the comprehensive managerial function that involves estimating the required quantity and quality of personnel. It encompasses the processes of recruitment, selection, development, and training to enhance employee competence. By ensuring that the right people are placed in the right positions, staffing helps the organization achieve its objectives through efficient utilization of its human resources.

8. (B) Recruitment and Selection
Recruitment involves wide-reaching efforts to attract a large pool of applicants for a vacant position, effectively creating a broad talent base. In contrast, selection is the subsequent phase where the human resource team evaluates applicants against specific criteria and rejects those who are unqualified. This ensures only

the most suitable individuals are chosen for the organization's needs.

9. (B) Staffing is hiring the best fit while recruiting is finding applicants.
Recruiting is the specific process of searching for potential candidates and encouraging them to apply for job openings within an organization. Staffing is a broader managerial function that includes recruitment but focuses on the final objective of hiring the best fit for specific roles. It involves the overall management of human resources to ensure organizational success through competence.

10. (A) Only Statement I is correct
Hiring new employees is a continuous process that persists throughout the life of an organization because of growth, turnover, and retirement. Although staffing is a specialized function, it is not restricted to the human resource department. Every manager, regardless of their specific department, performs staffing duties to ensure their team is adequately equipped with the necessary talent.

11. (D) P-2, Q-1, R-4, S-3
Formal interviews allow for an in-depth determination of a candidate's skills and provide detailed work profile information. Verification of references involves checking with previous contacts to understand a candidate's history and leadership. Medical tests assess physical and psychological fitness for specific tasks. Finally, selection and appointment culminate in a formal letter detailing employment terms, remuneration, and working hours.

12. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Hiring is considered the most critical managerial role because the success of an organization depends entirely on its people. Managers build the company by recruiting, selecting, and developing individuals into capable employees who can achieve organizational goals. This foundational process ensures that all other managerial functions, like planning and directing, are executed by competent and qualified human resources.

13. (A) P-2, Q-4, R-1, S-3
Staffing recognizes competent staff by identifying shortages and finding suitable people for specific departments. It enhances performance by appointing knowledgeable individuals to critical roles, such as the purchase department. For survival and development, succession planning ensures stability during technological shifts. Optimal employment involves ensuring adequate staffing levels to prevent operational disruptions.

14. (C) Internal Environment - Transfer policies and enterprise's employee-related policies
The internal environment of an organization consists of factors within its control, such as transfer, promotion, and demotion policies. These internal guidelines directly influence how staffing functions are carried out. In contrast, the external environment includes variables like government regulations. Understanding the internal policy framework is crucial for effective human resource management and staffing within any organization.

15. (D) II and III only
Successful recruitment involves proactive strategies like contacting passive applicants who are not actively seeking new roles. Hiring individuals with a proven history of success in similar jobs is also a reliable predictor of future performance. However, exclusively hiring external candidates is not advised, as it can ignore internal talent and damage the existing organizational culture and morale.

16. (A) Supply chain procurement
Staffing as a primary managerial process focuses on the acquisition, development, and retention of human resources. This includes activities such as personnel planning, training, and determining worker compensation. Supply chain procurement, which involves the acquisition of raw materials and physical goods, is an operational or logistical function and falls outside the scope of managing an organization's human capital.

17. (A) P-3, Q-1, R-4, S-2
Retained recruiting involves exclusive partnerships and upfront fees. Contingency recruiting only compensates firms upon successful placement. Outplacement recruiting provides tools for laid-off employees to find

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new jobs, often sponsored by the former employer. Reverse recruiting occurs when an employee is encouraged to seek better-fitting opportunities elsewhere. These diverse models allow organizations to tailor their recruitment strategies to specific needs.

18. (A) Utilizing theories from various social and behavioral sciences
Staffing is described as multidisciplinary because it integrates knowledge and theories from various fields, particularly social and behavioral sciences. This approach acknowledges that managing people requires understanding psychology, sociology, and economics. By drawing from these diverse academic disciplines, staffing practices become more effective in addressing the complex needs, motivations, and behaviors of individuals within an organizational setting.

19. (D) I, II, III, and IV
The number and type of managers required depend on the size of the business, organizational complexity, expansion plans, and the rate of personnel turnover. While these factors are critical for human resource planning, there is no specific legal regulation that dictates the exact ratio of managers to total staff. Management must analyze these internal variables to determine appropriate staffing.

20. (A) Recommending candidates after reviewing job applications
Selection is a critical stage in the staffing process that involves evaluating applicants to determine the best fit for a position. It includes reviewing job applications, conducting interviews, and assessing qualifications to recommend the most suitable candidates. Unlike recruitment, which seeks to attract a large pool, selection focuses on narrowing down that pool to find the ideal individual.

21. (B) 1, 2, 3, 4
The selection process typically begins with a preliminary interview to filter out unsuitable candidates early. This is followed by taking formal applications from the remaining prospects. Managers then examine these applications in detail to assess qualifications. Finally, employment tests are administered to objectively measure specific skills and psychological traits, ensuring a comprehensive evaluation of each potential employee's capabilities.

22. (B) To ensure the organisation solely focuses on maximizing profit margins through cost-cutting in hiring.
Staffing aims to establish productive relationships between employers and employees while ensuring worker satisfaction and competence. Its objectives include designing fair personnel policies regarding transfers and promotions. While profitability is a general business goal, focusing solely on maximizing profit through cost-cutting in hiring contradicts the core purpose of staffing, which is to build a skilled and motivated workforce.

23. (D) Staffing is merely a significant component of planning and has no independent standing.
Modern management research recognizes staffing as a distinct and independent managerial function. While some early specialists viewed it as a sub-component of organizing, it is now acknowledged for its unique importance in human resource management. Staffing is much more than a part of planning or organizing; it is a separate job focused specifically on the organization's people.

24. (B) 3, 4, 2, 1
The recruitment process begins by determining the specific need for hiring within the organization. Once the need is established, management conceives a recruitment strategy to target the right talent. This is followed by drafting a detailed job description that outlines responsibilities and requirements. Finally, the position is publicized to attract candidates through various internal and external channels.

25. (B) I, II, and IV
Staffing ensures that only individuals with necessary skills are hired, which prevents work disruptions caused by inadequate staffing levels. By recognizing employee contributions through performance reviews, it maintains high morale. While staffing departments handle legal compliance, the process itself does not guarantee automatic compliance with all external regulations without proactive effort and specialized knowledge by the management.

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26. (D) Obtaining qualified individuals for specific job positions
A primary function of staffing is to obtain qualified individuals for specific job positions within an organization. This involves identifying personnel needs, recruiting potential candidates, and selecting those who best match the job requirements. Effective staffing improves job satisfaction and organizational performance by ensuring that roles are filled by competent people who are well-suited to their respective tasks.

27. (A) Outplacement Recruiting
Outplacement recruiting is a service often provided by companies undergoing downsizing or layoffs. It involves hiring consultants to assist departing employees with resume writing, interview preparation, and job searching. This practice helps individuals transition into new roles and demonstrates the organization's commitment to social responsibility, even when ending employment relationships due to structural changes or economic necessity.

28. (A) I and II only
Staffing is a distinct managerial function that involves nominating qualified individuals to specific roles, separating it from planning and organizing. While modern management acknowledges its independence, the creation of a personnel department does not absolve line managers of their staffing duties. Managers remain responsible for hiring decisions, as they are closest to the operational needs of their departments.

29. (B) Modifying the structure to expand authority delegation
According to the system approach, an organization can increase the number of managers without physical expansion by modifying its internal structure. This is often achieved through expanding authority delegation, which creates new managerial levels and roles. This structural adjustment allows for better management of existing operations by distributing responsibilities among more leaders, thereby enhancing the organization's overall capacity.

30. (D) Associated to Social Responsibility
When hiring decisions are made with objectivity and fairness, recognizing the impact on an individual's life and dignity, it reflects the social responsibility of staffing. Staffing is not just a technical process; it involves human beings and ethical considerations. Ensuring that recruitment and selection practices are equitable demonstrates an organization's commitment to moral standards and fair treatment.

31. (C) Vestibule training
Vestibule training involves setting up a separate area that replicates the actual workspace, including the same equipment and software. This allows new employees to learn and practice their tasks in a controlled environment before interacting with real customers. This method bridges the gap between theoretical learning and actual job performance, ensuring employees are fully prepared for their roles.

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32. (A) P-2, Q-1, R-4, S-3
Socialization involves sharing tacit knowledge through direct interaction, such as communication in chat rooms. Externalization refers to the articulation of tacit knowledge into explicit concepts and models for easier communication. Combination is achieved by systemizing and updating explicit training materials using feedback and expert knowledge. Internalization occurs when employees convert explicit knowledge into tacit expertise through practice and application in their daily work routines.

33. (B) Formal Interview
A formal interview is a deep-dive stage in the selection process where candidates interact with department heads. This session allows the organization to assess the candidate's capacity for specific responsibilities while clarifying job expectations. It is more detailed than a preliminary interview and serves as a critical point for evaluating the candidate's fit for the specific work profile.

34. (D) Negotiated appraisal
A negotiated appraisal utilizes a mediator to facilitate the evaluation process, especially when there is conflict between an employee and supervisor. This method allows the employee to present their achievements first, fostering a more balanced and less adversarial environment. By incorporating third-party moderation, the

appraisal becomes a constructive dialogue aimed at fair assessment rather than a one-sided critique.

35. (A) I, III, and IV
Effective retention strategies include establishing industry-leading salaries and using person-based compensation structures that address individual needs. Making a clear connection between retention and rewards, such as linking benefits to seniority, also encourages employees to stay. Conversely, implementing a rigid and uniform pay scale that ignores personal requirements is often counterproductive and can lead to higher turnover rates.

36. (A) I, II, III, and IV
Formal performance appraisal can take several forms, including evaluation by a single superior or a group of superiors. It can also involve peer assessment, where colleagues evaluate each other's contributions. Additionally, some organizations implement upward appraisals, where subordinates evaluate their bosses. These diverse methods provide a multi-dimensional view of performance and help in comprehensive human resource development.

37. (A) Only Statement I is correct
Preliminary interviews are generic screenings intended to eliminate candidates who are clearly unfit for the organization. This saves time for more detailed later stages. The formal interview is not the first stage, nor does it typically involve checking medical records. Instead, it is an in-depth exploration of skills and personality that occurs after preliminary screenings and application reviews.

38. (D) Perception of the programme as pointless "busywork"
A common challenge in implementing retention strategies is when middle managers perceive new initiatives as useless corporate chores or busywork. This attitude can undermine the effectiveness of employee satisfaction programs. To succeed, these initiatives must be seen as valuable tools for organizational health rather than just additional paperwork that detracts from primary responsibilities and operational tasks.

39. (D) Performance appraisal
Performance appraisal is the systematic and periodic examination of an employee's job performance and overall contribution to the company. It serves to identify strengths and weaknesses while providing essential feedback for professional growth. This evaluation process is vital for making decisions regarding compensation, promotions, and training needs, ultimately helping the organization align individual performance with its goals.

40. (D) "Learning by doing"
The core principle of on-the-job training is learning by doing, where employees acquire skills while performing their actual duties. This practical approach allows for immediate application of knowledge within the real work environment. It is often more effective for technical tasks than off-site theoretical instruction, as it provides direct experience and instant feedback under the guidance of supervisors.

41. (B) Critical Incidents Method
The critical incidents method involves supervisors recording specific examples of exceptionally good or notably poor employee behavior as they occur. These logs provide concrete evidence for performance feedback during formal appraisals. By focusing on actual incidents rather than vague impressions, this method offers a more objective and behavior-based assessment of an employee's contribution to high-stress projects and tasks.

42. (C) Increasing the skills and the productivity of the workers
Training is essential for organizational growth because it directly increases the skills and productivity of workers. By keeping employees updated on new technologies and efficient work methods, training enhances overall performance and reduces the likelihood of errors. It is a proactive investment in human capital that ensures the workforce remains capable of meeting evolving industry standards.

43. (B) I and III only
Knowledge management makes information accessible to foster innovation and supports creative endeavors and educational growth. It aims to streamline operations and enhance learning within the organization. However,

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shortening development cycles is generally a goal, as efficient knowledge sharing should accelerate rather than lengthen processes. Effective management of intellectual capital ensures that collective expertise is utilized for competitive advantage.

44. (D) Laying the groundwork
Laying the groundwork is the initial phase of implementing a retention strategy. It involves conducting a turnover analysis, performing a needs assessment, and preparing a detailed action plan. By executing techniques and evaluating results in this systematic sequence, management can identify the root causes of turnover and create a targeted approach to improve employee retention and satisfaction.

45. (C) Aspects like attitude and initiative are highly precise and exceptionally easy to evaluate objectively.
While performance appraisal is valuable, it has limitations, including the potential for managers to lack necessary qualifications for accurate evaluation. One major disadvantage is the difficulty in objectively measuring traits like attitude and initiative, which are subjective rather than highly precise. Glossing over accountabilities or using inaccurate situational elements can also lead to failures in the performance evaluation process.

46. (B) Industrial accidents will substantially fall in numbers when the right technical staff is engaged for the right jobs.
A proper selection process is vital because hiring the right technical staff for appropriate jobs significantly reduces industrial accidents. When qualified personnel are engaged, resource efficiency and operational safety improve. Conversely, hiring unqualified individuals leads to wasted resources and increased risks. Success is directly correlated with workforce capabilities, making systematic selection essential for the long-term prosperity of any firm.

47. (B) P-3, Q-4, R-2, S-1
Self-evaluation allows individuals to assess their own performance. Peer assessment involves ratings from co-workers or the workgroup. The 360-degree feedback method incorporates comments from the participant, supervisors, and peers for a holistic view. Negotiated appraisal uses a mediator to minimize conflict, allowing the employee to present their case first to ensure a fair and balanced evaluation process.

48. (B) Vestibule training - Training at the actual workstation
Vestibule training is an off-the-job method where training occurs in a simulated environment that mimics the actual workspace, not at the workstation itself. On-the-job training methods include job rotation and mentoring, where learning happens during daily tasks. Off-the-job training involves workshops or seminars held away from the primary job site to provide theoretical and specialized instruction to employees.

49. (C) Internalisation
Internalization in the SECI model occurs when employees take explicit knowledge, such as that gained from an online course, and apply it through practical assignments. By testing expertise on the shop floor, workers convert theoretical information into tacit knowledge. This process deepens their understanding and enables them to develop new forms of learning based on their direct experiences.

50. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Top leadership must actively communicate that employees are vital for long-term survival. If senior management does not accept primary responsibility for retention, managers and staff may remain unaware of the true value of human capital. This high-level commitment ensures that retention strategies are prioritized across the organization, creating a culture where employees feel genuinely valued for their contributions.

51. (A) P-4, Q-2, R-1, S-3
Rating scales use numerical criteria ranging from excellent to poor. Trait analysis involves checklists with yes or no questions regarding specific characteristics. The forced choice method requires raters to choose from blocks of statements to minimize personal bias. Finally, the critical incidents method records specific employee behaviors as they happen to provide

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concrete evidence for performance evaluations during appraisals.

52. (D) I, II, III, IV, and V
Training provides numerous benefits to both the employee and the organization. It boosts morale, increases productivity, and improves promotion chances for individuals. For the company, it leads to a decreased requirement for constant supervision and a significant reduction in workplace accidents. This comprehensive development ensures a more competent, motivated, and efficient workforce, contributing to overall success and sustainability.

53. (C) Employee involvement
When workers feel their tasks are insignificant and lack pride in the company, it indicates a deficiency in employee involvement. Engaging employees in decision-making and helping them understand their contribution to the organization's success are key retention factors. Without meaningful involvement, staff members may feel disconnected and undervalued, leading to higher turnover rates despite competitive compensation or supervision.

54. (C) Annually, semi-annually, or quarterly
Performance reviews are essential for tracking employee progress and are most commonly conducted at annual, semi-annual, or quarterly intervals. These regular sessions allow for timely feedback and goal adjustment throughout the year. While reviews can theoretically happen at any time, these established periods provide a consistent framework for evaluating performance, discussing development, and making decisions regarding compensation or promotions.

55. (A) Knowledge Management
Knowledge management is the systematic process of generating, exchanging, utilizing, and managing information within an organization. It aims to harness the collective expertise of the workforce to improve efficiency and foster innovation. By making knowledge accessible and facilitating its transfer among employees, organizations can solve problems more effectively and maintain a competitive edge in rapidly changing business environments.

56. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Job satisfaction and output quality rise when employees work in fields where they excel. This alignment leads to greater personal fulfillment, which in turn fosters high morale and motivation. When individuals use their natural talents and strengths at work, they are more likely to be engaged and productive, benefiting both their own career growth and the organization.

57. (A) I, II, III, IV, and V
Performance appraisal systems serve multiple critical objectives, including maintaining records for compensation and identifying employee strengths and limitations. They also provide essential feedback and help discover existing potential for future organizational expansion. Furthermore, these evaluations shape employee attitudes and instill a sense of responsibility, ensuring that the workforce remains aligned with the company's long-term strategic goals and objectives.

58. (A) P-2, Q-4, R-1, S-3
Effective hiring includes giving applicants an accurate preview of their work. Socializing opportunities are enhanced through shared learning and role models. Compensation strategies benefit from person-based structures that allow for customization. Fair supervision focuses on improving management practices and communication abilities. Together, these practices create a supportive environment that encourages employee loyalty and reduces turnover within the various departments.

59. (C) The managers
Managers are responsible for monitoring employee performance and ensuring that learning translates into measurable results. Even if an organisation invests in an LMS, its effectiveness depends on how well managers track progress, set expectations, and evaluate whether employees meet key performance metrics. Vendors provide tools, but managers ensure practical application and performance improvement in the workplace.

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60. (D) Neither Statement I nor Statement II is correct
The definitions of benchmarking in the statements are reversed. Internal benchmarking involves comparing a company's current turnover rates against its own past performance to identify internal trends. External benchmarking compares those rates to industry standards and competitors. Proper usage of both methods is necessary for a comprehensive understanding of how well an organization is retaining its human resources.

61. (C) Collecting objective data on programmes to aid planning
A key benefit of human resource development is the collection of objective data on various programs to aid in future organizational planning. HRD fosters a culture of learning and problem-solving, helping the firm adapt to external shifts. It aims to improve employee skills and satisfaction rather than creating distrust. This systematic approach ensures that training initiatives are effective and aligned.

62. (A) Lewin's Change Management Model
Lewin's change management model divides the transition process into three distinct stages: unfreezing, changing, and refreezing. Unfreezing involves preparing the organization for change by breaking down existing mindsets. The change stage introduces new behaviors and processes. Finally, refreezing stabilizes the new state to ensure the changes are permanent and become part of the organization's ongoing culture and operational standards.

63. (A) I, II, III, IV, and V
Developing Behaviourally Anchored Rating Scales involves several systematic steps: generating critical incidents, developing performance dimensions, reallocating those incidents, and scaling them. The process culminates in the creation of a final instrument. These steps ensure that the appraisal tool is grounded in actual job behaviors, providing a clear and objective standard for evaluating employee performance across various organizational roles.

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64. (C) Preparing for various outcomes without total guarantees
When guiding an organization through change, managers should prepare for various outcomes without assuming total guarantees of success. Even well-designed strategies face obstacles, and a perfect plan does not exist. The most appropriate stance is to remain adaptable and ready to address challenges as they arise, rather than delegating responsibility or reverting to old methods at the first difficulty.

65. (A) I, II, III, IV, and V
Generation diversity in the workplace offers several advantages, including a variety of perspectives for problem-solving and a better understanding of diverse audiences. It also provides opportunities for educational growth across different age groups and fosters valuable mentorship relationships. By embracing these differences, organizations can create a more innovative and inclusive environment that leverages the unique strengths of every generation.

66. (D) Assertion (A) is false, but Reason (R) is true.
Although stress is a personal experience, it is incorrect to claim it cannot be scientifically measured. Modern physiological tests, similar to those used in polygraph examinations, can effectively measure stress levels by monitoring bodily responses. These objective tools provide valuable data for organizations to assess employee well-being and implement necessary stress management strategies to maintain a healthy work environment.

67. (C) Assessment Centre Approach
The assessment centre approach involves using multiple evaluators to observe candidates during situational exercises like in-basket tasks and management games. This method is particularly effective for selecting first-level supervisors, as it provides a comprehensive view of a candidate's practical skills and leadership potential. It moves beyond simple interviews to evaluate how individuals perform in realistic work-related scenarios.

68. (B) Collective ties between various labour unions and management - "Union-management relations"
Industrial relations primarily focuses on the collective ties between labor unions and management, often referred to as union-management relations. This field encompasses the interactions and negotiations that stem from the employer-employee relationship within an industrial setting. It does not include personal medical relations, consumer marketing interactions, or supply chain logistics, but rather the internal social structure of the workplace.

69. (A) The individual hobbies and weekend activities of line managers.
Change in an organization is typically driven by significant factors such as new technology, competition, or internal leadership shifts. These external and internal pressures necessitate adaptation. However, the personal hobbies and weekend activities of line managers are individual matters and do not constitute recognized drivers of organizational change. Drivers of change must impact the firm's strategic direction or operations.

70. (C) I, II, and III
To work effectively with employees of varying ages, managers should avoid making assumptions and using labels like "millennial" or "boomer." It is also essential to regularly review one's own biases to ensure fair treatment. These practices foster a respectful environment where individuals are valued for their skills and contributions rather than being judged based on generational stereotypes.

71. (A) Measuring stress through various physiological tests
When an employee experiences physical deterioration and depression due to work demands, organizations can measure these stress levels using physiological tests. These assessments, which can include monitoring responses similar to polygraph exams, demonstrate that stress has both physical and psychological components. Measuring these biological markers helps HR identify the severity of the issue and provide appropriate support or interventions.

72. (B) Agreeing on targets and indicators
In the four-step process of constructing a Performance Plan, once Key Results Areas and Performance Objectives are identified, the immediate next step is agreeing on targets and indicators. This step establishes specific, measurable benchmarks for success. Only after these metrics are set can management and employees move forward with constructing action plans and developing long-term career growth strategies.

73. (D) Business cycles determine the health of industrial relations
The health of industrial relations is often tied to business cycles. During economic growth, harmony is more likely, whereas sudden market crashes and wage cuts can lead to strikes and poisoned relations. This scenario illustrates how external economic factors directly influence the relationship between management and labor unions, emphasizing the need for stability to maintain a productive work environment.

74. (C) Each generation having different ways to solve problems
A multigenerational workforce is advantageous for problem-solving because each generation brings unique perspectives and different ways of approaching challenges. Younger employees may offer innovative tech-based solutions, while older staff provide wisdom and experience-based insights. This diversity of thought allows teams to consider a wider range of potential solutions, leading to more creative and effective outcomes for the organization.

75. (D) Career Development Plan (CDP)
A Career Development Plan is a list of long-term and short-term goals that employees set for their current or future roles. It serves as a roadmap for professional growth and skill acquisition. Unlike a performance appraisal, which reviews past actions, a CDP is forward-looking and helps align an individual's career aspirations with the needs and opportunities of the organization.

76. (D) Acceptable
Under the assessment centre approach, candidates are typically evaluated and placed into one of several specific categories. These include more than acceptable, less than acceptable, and

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unacceptable. The term "acceptable" is not used as a standard category in this specific method, which instead seeks to provide more nuanced distinctions regarding a candidate's readiness for a supervisory or leadership position.

77. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Managing change requires communicating with different audiences, including staff members who need to understand job impacts and have their worries addressed. While both the assertion and reason are true, the reason describes only one specific audience and does not fully explain why a manager must be competent in addressing multiple groups. Clear communication remains essential for alleviating employee anxiety.

78. (D) On-the-job training - Participating exclusively in online webinars from home
On-the-job training involves learning while performing actual tasks at the workplace, such as through work shadowing or direct experience. Participating exclusively in online webinars from home is considered an off-the-job training method, as it occurs away from the daily work environment. Intellectual and professional growth can also occur through university classes or certification programs that provide specialized theoretical knowledge.

79. (A) Preparation, Execution, and Subsequent Action
The change process encompasses everything that happens between the initial state and the desired outcome, categorized into preparation, execution, and subsequent action. Preparation involves getting the organization ready for transition. Execution is the actual implementation of changes. Subsequent action, or follow-through, ensures that the changes are consistently applied and stabilized within the organization's ongoing operational framework and culture.

80. (D) Poisoning labour relations through wage and job reductions
Economic recessions typically have a negative impact on industrial relations by leading to wage cuts and job reductions. These financial pressures often poison the relationship between management and labor unions, resulting in increased conflict and strikes. Unlike periods of prosperity, recessions challenge the stability of the workplace and require careful management to maintain even a basic level of cooperation.

81. (C) Regulating stress levels to enhance daily functioning
The primary goal of stress management is not to eliminate all stress, which is often impossible, but to regulate it to enhance daily functioning. By identifying stressors and applying coping techniques, individuals can improve their productivity and well-being. Effective stress management ensures that work demands do not overwhelm employees, allowing them to maintain a healthy balance and perform consistently.

82. (A) Enhancing efficiency through coordinated initiatives
Human resource development aims to enhance organizational efficiency through coordinated initiatives focused on employee learning and growth. By improving the skills and abilities of the workforce, HRD ensures that the company can adapt to changes and solve problems effectively. It is a strategic investment in the people of the organization to achieve higher productivity and long-term sustainable success.

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83. (D) Ensuring regular review of your own biases
In the scenario where a senior employee assumes a younger colleague is antisocial for wearing headphones, the senior employee failed to regularly review their own biases. Instead of focusing on individual behavior, they relied on a generational stereotype. Ensuring a regular review of biases helps foster a more inclusive environment where diverse work styles are understood rather than judged unfairly.

84. (C) I, II, III, and IV
A comprehensive strategy for change must include several key elements: a high-level overview of reasons for the shift, the project scope, and a team of main stakeholders. Additionally, a thorough roadmap of required tasks is essential for successful completion. These components ensure that all participants understand the goals and their roles in the transition, facilitating a smoother implementation.

85. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Building healthy industrial relations requires both management and trade unions to maintain a positive attitude. Success depends on mutual respect, understanding, and the acknowledgement of human dignity. Without this shared commitment to goodwill and cooperation, negotiations and daily interactions are likely to fail, leading to workplace conflict and reduced organizational productivity for both the employer and employees.

86. (C) Assertion (A) is true, but Reason (R) is false.
Key Result Areas (KRAs) are general areas of outcomes for which a department is responsible. While KRAs are linked to organizational goals, they are not necessarily derived from multi-decade objectives. Instead, they focus on more immediate and tangible outputs that contribute to overall success. Understanding KRAs helps employees focus their efforts on the most critical aspects of their departmental roles.

87. (B) I, II, and III
Formulating a career strategy involves several essential steps: conducting an in-depth analysis of personal values and strengths, being aware of one's advantages, and finally taking action. By understanding what motivates them and where their skills lie, individuals can make informed decisions about their professional future. This proactive approach ensures that career growth is intentional and aligned with personal goals.

88. (B) Avoid using labels
The department head failed to avoid using labels by categorizing the new hire primarily as a "millennial." Using generational labels can create resentment and reinforce stereotypes, even if the intention is positive. Effective leadership involves focusing on an individual's specific skills and innovative ideas rather than attributing characteristics based on their age group or generational trend in the workplace.

89. (A) Only Statement I is correct
Preparation involves readying the organization by explaining long-term goals and why the change is necessary. However, follow-through is not just the responsibility of a manager during the middle of the transition; it is the final stage of ensuring changes are sustained and integrated into the firm's operations. Consistent execution throughout the entire process is vital for permanent success.

90. (A) Union-employer relationship
Industrial relations describes the complex relationship between employees and management that stems directly or indirectly from the union-employer relationship. This field is concerned with the collective interactions, negotiations, and power dynamics between organized labor and the organizational leadership. It focuses on maintaining harmony and resolving disputes within the industrial framework to ensure smooth and productive business operations.

91. (A) P-4, Q-1, R-2, S-3
The critical incidents method can prioritize negative events over positive ones. The forced distribution method often relies on unrealistic assumptions of normal distribution, leading to central tendency errors. Rating scales are susceptible to the rater's personal biases. Confidential records are highly secretive and subjective, with feedback often given only for adverse entries, making the appraisal process non-transparent.

92. (C) Being an inexpensive system for small training groups
Off-the-job training, which includes workshops and seminars held outside the normal workstation, is often more expensive than on-the-job methods. It requires separate facilities and dedicated time away from productive work. While it can mimic actual conditions through vestibule training, it is not typically characterized as an inexpensive system, especially when professional external trainers or specialized equipment are involved.

93. (D) Managing staffing in both for-profit and non-profit units
Staffing is an all-pervasive function because it is necessary in all types of organizations, whether they are for-profit businesses or non-profit units. Every organization requires human resources to achieve its goals, meaning staffing must be managed at all levels and in all departments. It is not limited to any specific sector or hierarchy but is a universal managerial requirement.

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94. (C) I, II, III, IV, and V
Knowledge management utilizes a variety of tools, including groupware for threaded conversations, workflow management systems, and content management systems. Additionally, software for scheduling and electronic communication is vital for organizing and sharing information. These digital resources help an organization capture, store, and distribute collective knowledge, ensuring that critical information is accessible to all employees to improve decision-making.

95. (A) A multigenerational workforce is disadvantageous when identifying potential solutions.
A multigenerational workforce is actually highly advantageous for identifying potential solutions, as it brings together diverse perspectives and experiences. While each generation has its own mannerisms, an atmosphere with varying ages is ideal for mentoring and professional growth. The increasing age diversity in the workforce should be embraced as a strength that can enhance creativity and problem-solving within the organization.

96. (B) Establishing clear standards and providing good feedback
The Behaviourally Anchored Rating Scales (BARS) technique is advantageous because it establishes clear standards based on specific job behaviors. This clarity allows for objective evaluation and provides employees with constructive feedback on how to improve. By focusing on actual incidents rather than vague traits, BARS minimizes personal prejudice and ensures that various dimensions of performance are assessed fairly and accurately.

97. (C) Both Statement I and Statement II are correct
Internal recruiting is the effective process of filling open positions using current staff members, which can boost morale and reduce hiring costs. Retained recruiting involves an exclusive partnership with a search firm and the payment of upfront fees. Both methods represent different strategic approaches to acquiring talent, allowing organizations to choose the best option for their specific hiring needs.

98. (B) Compensation
The three primary facets of staffing are recruitment, selection, and training. Recruitment involves attracting a pool of candidates, selection focuses on choosing the best fit, and training enhances their skills for the role. While compensation is a critical component of human resource management, it is generally treated as a related outcome or administrative function rather than a primary facet.

99. (D) Providing transparent and frequent feedback to the assessee
The confidential records method is often criticized for its lack of transparency. Reports are kept secret, and feedback is usually only provided to the employee in the case of adverse entries. This system, commonly used in government and older firms, relies on subjective ratings that can be easily manipulated. It does not provide the frequent or open feedback found in modern appraisals.

100. (C) Assertion (A) is true, but Reason (R) is false.
Training is highly beneficial as it helps employees improve their abilities and overall effectiveness. However, it is false to suggest that these improvements decrease their promotion chances. On the contrary, better skills make employees more valuable and increase their opportunities for advancement. Training ensures that the workforce remains dynamic and capable of contributing to the organization's long-term success.

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CHAPTER 05
Directing

May/June 2016

1. What was the primary catalyst for the emergence of management science?
(A) The introduction of democratic government systems in developing nations.
(B) The decline of small-scale agriculture in favor of urban industrialization.
(C) The discovery of new psychological principles regarding human behavior.
(D) The growth of large corporations requiring operational order and consistency.

Oct/Nov 2024

2. Match the leadership qualities in List I with the descriptions in List II:
List I: (Leadership Qualities)
P. Vision and foresight
Q. Objective
R. Sense of responsibility
S. Capabilities in Communication
List II: (Descriptions)
1. Maximising the talents of those under command by feeling accountability toward corporate goals.
2. Forming judgement and making decisions based on facts and reasoning, free from bias.
3. Clearly conveying policies, processes, terms, and conditions to convince and stimulate people.
4. Visualising scenarios before creating logical programmes for the future.
(A) P-1, Q-3, R-4, S-2
(B) P-3, Q-4, R-2, S-1
(C) P-4, Q-2, R-1, S-3
(D) P-2, Q-1, R-3, S-4

May/June 2005

3. How does the directing function act as the initiator of action?
(A) It formulates the long-term vision and mission statements of the company.
(B) It creates the necessary hierarchy and recruits the required workforce.
(C) It initiates actual work, while other functions prepare the necessary ground.
(D) It sets the annual budget for all departmental and managerial activities.

Oct/Nov 2011

4. The adage "Put yourself in the shoes of those around you" is most appropriately associated with which leadership quality?
(A) Intelligence
(B) Objective
(C) Compassion
(D) Capabilities in Communication

May/June 2021

Identify the correct pair regarding the roles and responsibilities of a leader:
(A) Direction at all levels — Acting as a counsellor to provide therapy to employees.
(B) Representative of the Organisation — Explaining why the firm deserves support.
(C) Helping Integration — Securing cooperation in the process of formulating plans.
(D) Garners support — Integrating the personal aspirations of employees with business aims.

Oct/Nov 2017

6. Consider the following statements regarding the intelligence quality of a leader:
I. It requires the ability to balance the benefits and drawbacks of several options.
II. It calls for an analytical leader with a mature mindset.
III. It strictly prohibits thinking positively in difficult situations.
Which of the above statement(s) is/are correct?
(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

May/June 2025

7. What is the process wherein people working in an organisation are guided, motivated,

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counselled, supervised, and led towards the achievement of organisational goals?
(A) Planning
(B) Directing
(C) Staffing
(D) Controlling

Oct/Nov 2006

8. Read the following scenario and answer the question that follows:
A manager frequently draws on his life experiences to provide direction to his employees during times of crisis. He listens to their complaints, provides therapy, and makes an effort to find solutions to their personal and professional problems. Which leadership role is he primarily fulfilling?
(A) Representative of the Organisation
(B) Friend, Philosopher and Guide
(C) Director at all levels
(D) Integrator of goals

May/June 2018

9. Which of the following statements correctly describes the 'Sense of responsibility' quality of a leader?
(A) A leader should form judgements based on personal biases and subjective reasoning.
(B) A leader feels accountable for corporate goals to maximize follower talent.
(C) A leader should only be accountable for their own work, leaving others to manage.
(D) A leader assumes a visually appealing appearance to display general responsibility.

Oct/Nov 2012

10. Consider the following statements regarding the importance of directing:
I. Directing coordinates efforts by enabling supervisors to advise, motivate, and instruct subordinates.
II. Directing aids in motivation by providing incentives or compensation to improve performance.
III. Directing makes effective use of available resources by increasing the duplication of efforts.
Which of the above statement(s) is/are correct?
(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

May/June 2007

11. Read the following scenario and answer the question that follows:
During a critical system failure at a bank, the IT manager takes total control, issues rapid directives without seeking team input, and successfully restores the system in a short period. In this specific emergency where the manager is the most knowledgeable member, which leadership style was utilized?
(A) Delegative Leadership
(B) Participative Leadership
(C) Transformational Leadership
(D) Authoritarian Leadership

Oct/Nov 2022

12. Which of the following statements regarding the characteristics of directing is incorrect?
(A) It is present at every level of an organisation where there is a hierarchy.
(B) Every manager is responsible for supplying his staff with direction and inspiration.
(C) It treats all workers uniformly, ignoring unique individual circumstances.
(D) It ensures that the work is completed by the employees and contributes to firm expansion.

May/June 2012

13. What is the primary mechanism through which a leader reconciles the personal goals of employees with business goals?
(A) By coordinating efforts and influence to secure employee cooperation.
(B) By imposing strict financial penalties on underperforming staff members.
(C) By isolating the personal aspirations so they do not interfere with work.
(D) By delegating goal-setting entirely to the human resources department.

Oct/Nov 2015

14. Identify the incorrect pair regarding the traits attributable to effective leaders:
(A) Interpersonal process — Involves multiple people where a manager influences employees.
(B) Inherent characteristics — Refers to an individual's intelligence and personality.
(C) Positional independence — One leadership model is universally superior in all cases.
(D) Behaviour shaping — Engaging in the

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activity of attempting to shape group behaviour.

May/June 2014

15. Consider the following statements:

I. To gain the faith and confidence of subordinates, a leader must have a thorough understanding of the job performed by them.

II. Self-assurance is necessary in order to win the trust of subordinates and face challenges with full determination.

Which of the above statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2008

16. Why is directing considered a constantly occurring activity?

(A) It persists regardless of personnel turnover or managerial changes.
(B) It relies on providing financial incentives periodically to maintain output.
(C) It requires continuous changes in the organisational structure to work.
(D) It functions only when new departments are created within the firm.

May/June 2023

17. Which of the following is not a specific quality necessary for a person to be considered a good leader?

(A) Intolerance to change
(B) Compassion
(C) Humanist
(D) Outward Look

Oct/Nov 2019

18. Consider the following statements regarding the maintenance of equilibrium in an organisation:

I. Stability and balance are brought about by a strategic combination of compelling leadership qualities, clear communication, strict oversight, and motivation.

II. Sustainability is an index of an organisation's rate of decline and requires immediate restructuring.

Which of the above statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

NODIA

May/June 2010

19. Read the following scenario and answer the question that follows:

A manager has to decide on a promotion between two team members. One is a close personal friend, while the other consistently exceeds performance targets and possesses better technical skills. The manager decides to promote the high-performing employee based strictly on performance data and reasoning. Which leadership quality is demonstrated here?

(A) Humanist
(B) Vision and foresight
(C) Outward Look
(D) Objective

Oct/Nov 2023

20. Consider the following statements regarding the functions and responsibilities of a leader:

I. A leader must secure cooperation in the process of formulating plans and policies at the highest possible level.

II. A leader serves as the representative of the enterprise at meetings and conferences.

III. A leader integrates the personal aspirations of employees with the aims of the business.

IV. A leader only follows the organisation's ideas and avoids suggesting new programmes.

Which of the above statement(s) is/are correct?

(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, and IV

May/June 2017

21. Read the following scenario and answer the question that follows:

A new CEO is appointed to a struggling tech company. She immediately reviews the market trends, visualizes the upcoming technological shifts over the next five years, and creates logical, long-term programmes to align the company's product line accordingly. Which leadership quality is predominantly displayed?

(A) Compassion
(B) Outward Look
(C) Vision and foresight
(D) Self-confidence

Oct/Nov 2010

22. Which of the following is not one of the four main elements of directing?
(A) Motivation
(B) Staffing
(C) Communication
(D) Supervision

May/June 2008

23. What is defined as the capacity to convince other people to eagerly pursue predetermined goals?
(A) Controlling
(B) Supervision
(C) Management
(D) Leadership

Oct/Nov 2013

24. Which of the following statements regarding leadership qualities is incorrect?
(A) An intelligent leader can explore difficult situations and balance the benefits and drawbacks of several options.
(B) A leader must have self-assurance to win the trust of subordinates and face challenges with determination.
(C) A leader needs to have a thorough understanding of the job performed by subordinates to gain their faith and confidence.
(D) Compassion dictates that fairness should be ignored when addressing complaints.

May/June 2009

25. Consider the following statements regarding the traits of effective leaders:
I. It is a procedure involving multiple people where a manager directs employees.
II. It references inherent characteristics such as intelligence, maturity level, and personality.
III. It involves more than one person interacting with each other and combining efforts.
IV. It shapes the behaviour of the group to facilitate accomplishment of the company's aim.
V. It relies on a single universal model of leadership that is superior in all circumstances.
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV
(B) I, II, IV, and V
(C) II, III, IV, and V
(D) I, III, IV, and V

Oct/Nov 2007

26. Which of the following statements correctly describes the hierarchical flow of the directing function?
(A) It flows laterally across various departments at the same organizational level.
(B) It flows upward from junior subordinates to members of the top management.
(C) It is an isolated function that operates independently of the formal hierarchy.
(D) It flows from higher levels of management down to the lower levels.

May/June 2019

27. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): A leader must treat human beings on the basis of humanitarian concerns to establish an atmosphere favourable to growth.
Reason (R): A leader deals with people on a daily basis and has direct interaction with them, often addressing their personal issues.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2005

28. Read the following scenario and answer the question that follows:
A textile manufacturing company decides to transition its production process from using handlooms to power looms. This transition leads to a requirement for less manpower and more machinery. The management steps in to explain the context and specifics of these adjustments to the employees, facilitating customization and ensuring seamless operation. This scenario best illustrates which aspect of directing?
(A) Adapting to changing circumstances
(B) Initiating the action
(C) Making effective use of available resources
(D) Providing motivation

May/June 2024

29. Read the following scenario and answer the question that follows:

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A department head frequently interacts with her subordinates to understand their daily personal challenges, exercising extreme caution and focus. She treats them based on humanitarian concerns to establish a favourable atmosphere for growth. Which leadership quality does this represent?
(A) Knowledge of work
(B) Intelligence
(C) Humanist
(D) Self-confidence

Oct/Nov 2016

30. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): Real work in an organisation cannot be put into action until instructions have been provided and comprehended.
Reason (R): The responsibility of instruction is the activity that determines where each subordinate's workday actually begins.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2006

31. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): The delegative leadership strategy can result in a lack of inspiration and low morale among team members.
Reason (R): Friction among the members of the team might cause the group to break apart and go in a different direction.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2014

32. Which of the following is an incorrect statement regarding the primary components of motivation?
(A) Conformational Changes occur when the choice is made to carry out a behaviour.
(B) Conformational Changes involve physical workplace shifts to aid staff.
(C) Perseverance is a persistent effort in the direction of a goal, in spite of the presence of obstacles.
(D) Intensity is a visible manifestation of the dedication and enthusiasm with which one pursues a goal.

May/June 2013

33. Match the advantages in List I with the descriptions in List II regarding participative leadership:
List I: (Advantages of Participative Leadership)
P. Inspiration
Q. Utilization
R. Development
S. Productivity
List II: (Descriptions)
1. It is possible to achieve high levels of it.
2. More efficient use of the employees' creative potential.
3. Assists in the creation of powerful teams.
4. Workers' gratification got from their jobs rose.
(A) P-2, Q-1, R-4, S-3
(B) P-4, Q-2, R-3, S-1
(C) P-3, Q-4, R-1, S-2
(D) P-1, Q-3, R-2, S-4

Oct/Nov 2021

34. Read the following scenario and answer the question that follows:
Two employees are working towards a professional certification. The first employee occasionally reads a few pages of the study material. The second employee studies on a consistent basis, actively participates in study groups, and utilizes extra research resources. The difference between the two employees primarily illustrates a variance in which component of motivation?
(A) Conformational Changes
(B) Relatedness
(C) Extrinsic Rewards
(D) Intensity

NODIA

May/June 2011

35. Read the following scenario and answer the question that follows:
A research lab director provides his highly experienced scientists with complete freedom to choose their projects and working hours. The scientists are knowledgeable and accept responsibility, resulting in a productive atmosphere characterized by high inventiveness. Which leadership style is prominent here?
(A) Delegative
(B) Transactional
(C) Authoritarian
(D) Participative

Oct/Nov 2025

36. Match the ERG theory needs in List I with the descriptions in List II:
List I: (ERG Theory Needs)
P. Existence
Q. Relatedness
R. Growth
List II: (Descriptions)
1. A sense of community and a healthy relationship with oneself.
2. Self-development, fulfilment, and the feeling of realising your potential.
3. A person's physical and mental well-being; the most tangible requirement.
4. The desire to take calculated risks for immediate feedback.
(A) P-3, Q-1, R-2
(B) P-1, Q-2, R-3
(C) P-2, Q-3, R-1
(D) P-3, Q-2, R-1

May/June 2015

37. What serves as a theoretical framework providing a helpful methodology and structure for defining management practices suitable to the work style and personality of the individual?
(A) A leadership model
(B) A communication model
(C) A motivational theory
(D) An organisational structure

Oct/Nov 2009

38. What can occur when extrinsic rewards are provided for an activity that was previously intrinsically motivating?
(A) It can lead to an infinite increase in perseverance levels.
(B) It ensures a permanent conformational change in behaviour.
(C) It completely eradicates the need for external supervision.
(D) It can cause over-justification, reducing intrinsic motivation.

May/June 2020

39. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): Continuing one's education by enrolling in additional science classes despite significant investment of time, energy, and resources demonstrates perseverance.
Reason (R): Perseverance is a persistent effort in the direction of a goal, in spite of the presence of obstacles.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2018

40. Consider the following statements regarding the advantages of Transformational Leadership:
I. It leads to a decrease in the number of employees who leave their jobs.
II. It places a strong emphasis on the importance of the business vision.
III. It uses several methods of motivation to gain personnel support.
IV. It places a high priority on the interaction between parties.
V. It relies entirely on a system of giving and taking monetary incentives.
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV
(B) I, II, IV, and V
(C) II, III, IV, and V
(D) I, III, IV, and V

May/June 2022

41. Consider the following factors from the two-factor theory of motivation:
I. A Sense of Accomplishment
II. Recognition
III. The nature of the task itself

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Which of the above statement(s) represents motivational factors?
(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

Oct/Nov 2020

42. Identify the correct pair representing an advantage of Transformational Leadership:
(A) Compulsiveness — This style of leadership is strictly based on compulsiveness.
(B) Divergence of protocols — It guarantees strict adherence to all existing routines.
(C) Morale — When utilising this technique, employees have good morale.
(D) Turnover — It increases the number of employees who leave their jobs.

May/June 2016

43. Which of the following statements is correct regarding the uses of motivation?
(A) It encourages people to pursue behaviours that are harmful or undesirable, such as addiction.
(B) It assists individuals in increasing their productivity while working toward a goal.
(C) It prevents individuals from regaining a sense of mastery over their own lives.
(D) It actively discourages people from taking chances or making choices.

Oct/Nov 2009

44. Read the following scenario and answer the question that follows:
A sales manager sets clear, measurable quarterly quotas for his team. He ensures everyone is aware of the objectives and precisely how they will be rewarded if they meet the requirements, or admonished if they fail. He focuses purely on achieving these goals without altering existing procedures. What type of leadership is this?
(A) Transformational
(B) Participative
(C) Delegative
(D) Transactional

May/June 2023

45. The ERG model of motivation was established by modifying which widely known psychological framework?
(A) Expectancy Theory
(B) Two-Factor Theory
(C) Hierarchy of Needs
(D) Three-Needs Theory

Oct/Nov 2018

46. Match the leadership styles in List I with the key characteristics in List II:
List I: (Leadership Styles)
P. Authoritarian
Q. Participative
R. Delegative
S. Transactional
List II: (Key Characteristics)
1. Everyone on the team is involved in the decision-making process.
2. Relies on incentives, admonition, and other communications to get the work done.
3. The leader has the ability to set results and enforce expectations, often causing creativity to suffer.
4. Focuses on handing over initiative to team members, also known as laissez-faire.
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-1, R-4, S-2
(C) P-4, Q-3, R-2, S-1
(D) P-2, Q-4, R-1, S-3

May/June 2007

47. Read the following scenario and answer the question that follows:
In a study, a group of children who loved to draw were told they would receive a ribbon and a gold star for drawing pictures. In subsequent observations, these children spent less time playing with drawing materials compared to children who received an unexpected reward or no reward. What does this scenario illustrate?
(A) The effectiveness of intrinsic motivation over perseverance.
(B) Over-justification effect reducing intrinsic motivation.
(C) The complete failure of the ERG theory of motivation.
(D) The positive reinforcement principle of leadership.

Oct/Nov 2025

48. Consider the following statements regarding Transactional Leadership:
I. It is concerned with adhering to existing routines and procedures in an accomplished manner.

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II. It creates radical changes inside an organisation.
III. It results in a system that is simple for managers to put into action and straightforward for workers.
IV. It uses time-bound, measurable, and detailed objectives within the employees' reach.

Which of the above statement(s) is/are correct?
(A) I, III, and IV
(B) I, II, and III
(C) II, III, and IV
(D) I, II, and IV

May/June 2012

49. Which of the following is not one of the three primary components of motivation?
(A) Relatedness
(B) Conformational Changes
(C) Perseverance
(D) Intensity

Oct/Nov 2014

50. Consider the following disadvantages associated with Transformational Leadership:
I. It is possible for leaders to lie to their employees.
II. It may require continuous encouragement and continuous feedback.
III. The works cannot move further until the staff give their approval.
IV. It has the potential to sometimes lead to a divergence of protocols and principles.
V. It completely eliminates the need for any interaction between parties.

Which of the above statement(s) is/are correct?
(A) I, II, III, and IV
(B) I, II, IV, and V
(C) II, III, IV, and V
(D) I, III, IV, and V

May/June 2019

51. In the two-factor theory of motivation, how do hygiene factors differ from motivating factors?
(A) Hygiene factors inspire an employee to put forth their best effort, while motivating factors prevent dissatisfaction.
(B) Hygiene factors relate to the nature of the task itself, while motivating factors relate to company policies.
(C) Hygiene factors are intrinsic, while motivating factors are strictly extrinsic.
(D) Absent hygiene factors reduce effort, while motivators inspire peak performance.

Oct/Nov 2006

52. Identify the incorrect pair regarding the disadvantages of leadership styles:
(A) Authoritarian — Might provoke discontent among workers.
(B) Participative — If staff lack skills, poor decisions may be made.
(C) Delegative — Friction might cause the group to break apart.
(D) Transactional — Empathy adds significant value and improves efficiency.

May/June 2021

53. Read the following scenario and answer the question that follows:
A project leader gathers her team every week to brainstorm solutions. She encourages everyone to contribute ideas before she makes the final decision. While this has raised gratification and utilized creative potential, reaching a decision often takes a considerable amount of time. Which leadership style does this reflect?
(A) Transactional
(B) Authoritarian
(C) Participative
(D) Delegative

NODIA

Oct/Nov 2010

54. Consider the following statements regarding motivation:
I. Motivation provides the right guidance to finish a task for all human behaviours.
II. Motivation is exclusively applicable in the workplace and has no impact on day-to-day life activities like losing weight.

Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2005

55. Which of the following best conceptualizes intrinsic motivation?
(A) Motivation from within to engage in inherently rewarding behaviour.
(B) Motivation that originates from factors external to the individual, such as financial gain.

(C) Motivation to complete a task solely to avoid punitive actions by management.
(D) Motivation derived strictly from social recognition and physical trophies.

Oct/Nov 2022

56. Match the disadvantages in List I with the leadership styles in List II:
List I: (Disadvantages)
P. The process of making decisions takes some time.
Q. Potential security problems may emerge due to openness.
R. Fosters the development of more followers than leaders.
S. There is a lack of clarity regarding command accountability.
List II: (Leadership Styles)
1. Delegative Leadership
2. Transactional Leadership
3. Participative Leadership (Decision time)
4. Participative Leadership (Security)
(A) P-3, Q-4, R-2, S-1
(B) P-4, Q-3, R-1, S-2
(C) P-1, Q-2, R-4, S-3
(D) P-2, Q-1, R-3, S-4

May/June 2018

57. In the ERG theory of motivation, what is the chronological order of needs based on their level of tangibility, starting from the most tangible to the least tangible?
(A) Growth, Relatedness, Existence
(B) Existence, Relatedness, Growth
(C) Relatedness, Existence, Growth
(D) Existence, Growth, Relatedness

Oct/Nov 2016

58. Read the following scenario and answer the question that follows:
A branch manager strictly sets targets and enforces expectations without seeking input from the tellers and clerks. While this method clears the command chain and reduces repetition, it stifles the originality and innovation of the workforce. Which leadership style is being applied?
(A) Authoritarian
(B) Transformational
(C) Participative
(D) Delegative

May/June 2014

59. Which component of motivation is best described as the visible manifestation of the dedication and enthusiasm with which one pursues a goal, such as a student actively participating in every discussion?
(A) Conformational Changes
(B) Perseverance
(C) Intensity
(D) Instrumentality

Oct/Nov 2007

60. Read the following scenario and answer the question that follows:
The CEO of a startup provides her employees with a clear, compelling vision of the future. She continuously encourages and empowers them to work toward this goal, acting as a personal example of that vision. As a result, employee turnover has decreased significantly. What leadership paradigm is she using?
(A) Transactional
(B) Transformational
(C) Authoritarian
(D) Delegative

May/June 2025

61. Individuals who tend to be vocal, assertive, demanding, and practical, and who enjoy participating in debates to gain sway over fellow workers, are best described by which need?
(A) Need for Achievement
(B) Need for Affiliation
(C) Need for Power
(D) Need for Relatedness

Oct/Nov 2019

62. What characterizes the Dynamic Model of communication?
(A) It involves conscious interaction and thoughtful response developed over time.
(B) It consists of a rigid, linear five-step sequence that cannot be altered or modified.
(C) It relies strictly on quantitative transmission channels without any human feedback.
(D) It restricts communication processes solely to non-human or biological entities.

May/June 2009

63. Read the following scenario and answer the question that follows:
An employee feels that they are being subtly managed and not allowed to take "ownership"

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of the work they do. According to the two-factor theory of motivation, which motivational factor is lacking in this scenario?
(A) Responsibility
(B) Status
(C) Growth
(D) Working Conditions

Oct/Nov 2011

64. Consider the following statements regarding the importance of communication in an organisation:
I. It contributes directly to employee and organisational learning.
II. It has become a strategic tool for employee engagement, satisfaction, and retention.
III. It is irrelevant in an age of increased competition for talent.
IV. It contributes to safety, innovation, and quality of decision-making.
Which of the above statement(s) is/are correct?
(A) I, II, and IV
(B) II, III, and IV
(C) I, III, and IV
(D) I, II, and III

May/June 2010

65. Consider the following statements regarding the implications of the expectancy theory for leaders and organisations:
I. Make available to people the kinds of rewards they care about.
II. Individuals should be given simple goals that require no effort.
III. Individuals should be given goals that are within their reach.
IV. Teams need to be given the authority to accomplish things on their own.
V. Make sure to give out the incentives that were promised when they were earned.
Which of the above statement(s) is/are correct?
(A) I, II, IV, and V
(B) I, III, IV, and V
(C) II, III, IV, and V
(D) I, II, III, and IV

Oct/Nov 2024

66. Read the following scenario and answer the question that follows:
A manager supervises a team comprising traditional employees and Millennials. To communicate effectively, the manager impresses the need for loyalty to the traditional employees, but uses a highly fluid, concise model with brief explanations for the Millennials. What organizational communication concept justifies this approach?
(A) Generations speaking different languages regarding expectations.
(B) Linear Model constraints.
(C) Extra-personal communication requirements.
(D) Avoidance of cognitive distortions.

May/June 2017

67. Consider the following factors from the two-factor theory of motivation:
I. The policies of the Company
II. Supervision
III. Relationships
IV. Compensation Policies
Which of the above statement(s) represents hygiene factors?
(A) I, II, and III
(B) I, II, III, and IV
(C) II, III, and IV
(D) I, III, and IV

Oct/Nov 2005

68. Which of the following individuals defined communication as taking place when one mind so acts upon its environment that another mind is influenced, and in that other mind an experience occurs which is like the experience in the first mind?
(A) Harold Dwight Lasswell
(B) I.A. Richards
(C) Claude Shannon
(D) Warren Weaver

NODIA

May/June 2020

69. Which of the following is not one of the three directions in which communication within an organisation typically filters?
(A) Diagonally
(B) Up
(C) Down
(D) Horizontally

Oct/Nov 2015

70. Read the following scenario and answer the question that follows:
A manager executes an activity that is inherently rewarding to him and gives his full attention

and effort, refusing to be content until the task is accomplished with flying colours. The joy he derives far exceeds the gratification from financial benefit. This behaviour is typical of which need?
(A) Need for Power
(B) Need for Affiliation
(C) Need for Achievement
(D) Need for Supervision

May/June 2013

71. Read the following scenario and answer the question that follows:
A trainer is working with an intelligent service animal at a security firm. The trainer uses a specific set of sign language commands, and the animal responds accordingly. This scenario is a prime example of which level of communication?
(A) Extra-personal Communication
(B) Interpersonal Communication
(C) Intrapersonal Communication
(D) Mass Communication

Oct/Nov 2021

72. Which of the following statements regarding the Need for Affiliation is incorrect?
(A) People with this need gain pleasure from being loved by everyone.
(B) Affiliative people avoid interaction and prefer isolated work setups.
(C) This trait is denoted by the acronym "n-affiliation."
(D) They find it rewarding to offer assistance and consolation to others.

May/June 2024

73. In the linear communication model, what is the correct sequential arrangement of its five components?
(A) Origin of information, Transmission, Transmission channel, Receiver, Destination
(B) Destination, Receiver, Transmission channel, Transmission, Origin of information
(C) Transmission channel, Origin of information, Transmission, Receiver, Destination
(D) Origin of information, Receiver, Transmission channel, Transmission, Destination

Oct/Nov 2008

74. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): In the expectancy theory, a lack of motivation may be present if an individual lacks faith that the rewards will materialise for them upon attaining desired outcomes.
Reason (R): Instrumentality refers to the degree to which individuals have faith that the rewards will materialise for them if they attain the desired outcomes.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2006

75. Read the following scenario and answer the question that follows:
A person realizes they are overweight, comes to terms with this fact internally, and subsequently devises a strict diet plan for themselves without discussing it with anyone else. Which level of communication is occurring here?
(A) Interpersonal Communication
(B) Organisational Communication
(C) Mass Communication
(D) Intrapersonal Communication

Oct/Nov 2017

76. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): An employee will put less effort into their work if compensation policies and working conditions are inadequate.
Reason (R): Compensation policies and working conditions are considered hygiene factors, the absence of which leads to decreased effort.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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May/June 2008

77. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): Engaging in self-reflection to determine whether or not you should have engaged in a particular activity is an example of intrapersonal communication.
Reason (R): Intrapersonal communication involves the human capacity for self-awareness, such as "telling ourselves the truth."
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2013

78. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): The performance-satisfaction model of motivation contends that performance is necessarily a direct result of being satisfied.
Reason (R): It suggests that once people achieve their goals of satisfaction, they are more likely to become complacent.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2015

79. Which of the following pairs correctly identifies the two most fundamental tenets of communication essential to the success of any business?
(A) It is irreversible and active listening should always be practised.
(B) It is reversible and passive listening should be practiced.
(C) It requires written documentation and minimal verbal exchange.
(D) It is optional and depends strictly on the hierarchy.

Oct/Nov 2012

80. Read the following scenario and answer the question that follows:
A worker realizes that a colleague is receiving a higher salary for the same amount of effort. Instead of asking for a raise, the worker mentally minimizes the value of their own hard work to feel less distressed about the situation. This behaviour is an example of "cognitive distortions" described in which theory?
(A) ERG Theory
(B) Performance-Satisfaction Theory
(C) Expectancy Theory
(D) Equity Theory

May/June 2011

81. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): Effective organisational communication is the glue that binds people together regardless of language, race, or ethnic background.
Reason (R): When there is a breakdown in communication, disorder and confusion are brought into a situation, dramatically increasing the likelihood of failure.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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Oct/Nov 2020

82. Which of the following is not one of the three fundamentally important wants identified by the three-needs theory that motivate people?
(A) Need for Existence
(B) Need for Power
(C) Need for Affiliation
(D) Need for Achievement

May/June 2022

83. Consider the following statements regarding the Equity Theory:
I. It focuses on the perceived fairness of resource allocation within an organisation.
II. Employees experiencing disparity may try to reduce it by distorting inputs and/or results

in their own minds.

Which of the above statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2023

84. Match the levels of communication in List I with the descriptions in List II:

List I: (Levels of Communication)

P. Extra-personal
Q. Interpersonal
R. Intrapersonal
S. Mass Communication

List II: (Descriptions)

1. Talking to oneself and self-reflection.
2. Interaction using sign language with non-human entities.
3. Using newspapers, periodicals, or videoconferencing to reach a wide audience.
4. Two parties using a shared language to convey messages orally or in writing.

(A) P-1, Q-2, R-3, S-4
(B) P-4, Q-3, R-2, S-1
(C) P-2, Q-4, R-1, S-3
(D) P-2, Q-1, R-4, S-3

May/June 2016

85. Which of the following is not one of the standard questions used to describe an act of communication?

(A) Who?
(B) Why does it happen?
(C) What Does It Say?
(D) In what Channel?

Oct/Nov 2009

86. Which of the following statements correctly identifies a characteristic of high achievers in the three-needs theory of motivation?

(A) High achievers seek immediate feedback on the work they perform.
(B) High achievers actively avoid taking any risks to ensure guaranteed success.
(C) High achievers are primarily motivated by material rewards rather than the task itself.
(D) High achievers prefer to abandon a task if it becomes too challenging for them.

May/June 2023

87. Consider the generational views on work and life:

I. Traditional Generation views work as being the central focus of life.
II. Generation 'X' seeks a clear balance between work and life.
III. Generation 'Y' desires to view work and personal life as a smooth integration without separation.

Which of the above statement(s) is/are correct?

(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

Oct/Nov 2018

88. Match the motivation theories in List I with the key concepts in List II:

List I: (Motivation Theories)

P. Porter and Lawler's Theory
Q. Equity Theory
R. Expectancy Theory
S. Self Determination Theory

List II: (Key Concepts)

1. Motivation is the result of Valence, Expectancy, and Instrumentality.
2. People take responsibility for their own affairs; intrinsic motivation is central.
3. Contentment is based on perceptions of an equal amount among co-workers.
4. Correlation between performance and satisfaction is due to another variable that is rewarded.

(A) P-3, Q-4, R-2, S-1
(B) P-4, Q-3, R-1, S-2
(C) P-1, Q-2, R-3, S-4
(D) P-2, Q-1, R-4, S-3

May/June 2007

89. Which of the following statements regarding levels of communication is incorrect?

(A) Interpersonal communication requires at least two people: one acts as the sender while the other acts as the receiver.
(B) Organisational communication can filter up, down, or horizontally.
(C) Mass communication involves means such as periodicals, teleconferencing, and television.
(D) Intrapersonal communication involves interactions with non-human biological

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entities.

Oct/Nov 2025

90. An employee discovers they are lacking motivation because they do not place any importance on the internal or external gratifications that come with the work they are performing. According to the expectancy theory of motivation, which specific variable is absent?
(A) Valence
(B) Expectancy
(C) Instrumentality
(D) Relatedness

May/June 2012

91. Match the importance of supervision in List I with the descriptions in List II:
List I: (Importance of Supervision)
P. Issue of Orders and Instructions
Q. Planning and Organizing the Work
R. Proper Assignment of Work
S. Provides vital link between Workers and Management
List II: (Descriptions)
1. Systematic allotment of activities to prevent workers from having too much free time or being overburdened.
2. Ensuring instructions are properly communicated and clearing doubts.
3. Communicating policies downwards and providing feedback regarding complaints upwards.
4. Preparing a schedule to ensure an even and steady flow of work.
(A) P-4, Q-1, R-2, S-3
(B) P-2, Q-4, R-1, S-3
(C) P-1, Q-3, R-4, S-2
(D) P-3, Q-2, R-1, S-4

Oct/Nov 2014

92. Consider the following requisite qualities of an effective supervisor:
I. Technical, human relations, and conceptual skills.
II. Empathy, Honesty, and Courage.
III. Ability to decide whether supervision should be general or close.
IV. High tendency to incite factionalism within the group.
Which of the above statement(s) represents true qualities?
(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, and IV

May/June 2019

93. The term "Supervision" is derived from Latin. What is the literal meaning of the components "Super" and "vision"?
(A) 'Superior' and 'sight'
(B) 'Supreme' and 'control'
(C) 'Beyond' and 'observation'
(D) 'From the above' and 'to see'

Oct/Nov 2006

94. Consider the roles a supervisor plays in an organisation:
I. Communicating plans, policies, and strategies to the subordinates.
II. Providing therapy to top management during personal crises.
III. Acting as a guide, motivator, and mentor for the professional development of subordinates.
Which of the above statement(s) correctly identifies a supervisor's roles?
(A) I and III
(B) I and II
(C) II and III
(D) I, II, and III

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May/June 2021

95. Group cohesiveness is represented by the level of attraction that each member has for the group. How does high cohesiveness impact a group's performance?
(A) It causes a breakdown in communication as members become too comfortable with each other.
(B) It eliminates the need for any form of supervision or leadership within the organization.
(C) It results in an overlap of performance and duplication of effort across different departments.
(D) It produces better results as members share responsibility for common goals.

Oct/Nov 2010

96. Which of the following defines supervision as "the direct and immediate guidance and control of subordinates in the performance of their task"?

(A) George R. Terry
(B) V. Viteles
(C) Stephen G. Franklin
(D) Keith Davis

May/June 2005

97. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): A supervisor must ensure that all instructions are properly communicated to every concerned employee.
Reason (R): A subordinate can give better performance when he knows the work he is supposed to do.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2022

98. Match the qualities of an effective supervisor in List I with the descriptions in List II:
List I: (Qualities of an Effective Supervisor)
P. Leadership qualities
Q. Degree of Supervision
R. Promoting Cohesiveness
S. Rapport with Superiors
List II: (Descriptions)
1. Creating a supportive, caring, and positive working environment where members share responsibility.
2. Influencing the work behaviour of subordinates towards the attainment of goals.
3. Deciding whether the oversight should be general or close, to avoid impacting morale negatively.
4. Presenting views and suggestions related to subordinates without hesitation.
(A) P-1, Q-4, R-2, S-3
(B) P-2, Q-3, R-1, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2018

99. Consider the following points regarding the importance of supervision:
I. Issue of Orders and Instructions
II. Planning and Organizing the Work
III. Proper Assignment of Work
IV. Better Utilisation of Resources
V. Eradicating upward communication
Which of the above statement(s) correctly lists the points of importance?
(A) I, II, III, and IV
(B) I, II, IV, and V
(C) II, III, IV, and V
(D) I, III, IV, and V

Oct/Nov 2016

100. Consider the following statements regarding the proper assignment of work by a supervisor:
I. If work is not properly assigned, some workers may have a lot of free time while others may be overburdened.
II. Systematic allotment of activities and resources eliminates the need for delegating authority to the workers.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

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ANSWERS

1. (D) The growth of large corporations requiring operational order and consistency.
Management science emerged as a direct response to the Industrial Revolution and the subsequent rise of large-scale corporate entities. As organizations expanded in size and complexity, simple intuitive methods became insufficient. Businesses required a systematic, logical approach to maintain operational order, consistency, and efficiency across vast departments, leading to the formalized study and application of management principles.

2. (C) P-4, Q-2, R-1, S-3
Leadership involves diverse qualities that ensure organizational success through effective human management. Vision and foresight enable leaders to visualize future scenarios and plan accordingly. Objectivity ensures decisions are based on facts rather than bias. A sense of responsibility involves accountability for goals, while communication capabilities allow leaders to convey policies clearly to stimulate and convince their teams.

3. (C) It initiates actual work, while other functions prepare the necessary ground.
While planning, organizing, and staffing create the framework and provide the necessary resources, the directing function is what puts these elements into motion. It serves as the spark that converts theoretical plans into tangible performance. Without direction, the workforce and organizational structure remain static, as this function provides the instructions and motivation needed for productive action.

4. (C) Compassion
Compassion in leadership involves empathy and the ability to understand the emotional and situational states of subordinates. By figuratively putting oneself in another's shoes, a leader can better address personal grievances and professional challenges. This quality fosters a supportive environment, ensuring that management decisions consider the human element and the individual well-being of every team member in the firm.

5. (B) Representative of the Organisation — Explaining why the firm deserves support.
A leader serves as the formal representative of an organization, acting as the primary liaison between the firm and external stakeholders. In this role, the leader must effectively communicate the enterprise's mission and values at meetings and conferences. This representative function is crucial for explaining the firm's contributions and securing the necessary external support and public confidence for growth.

6. (A) I and II
Intelligence in a leadership context refers to the cognitive and analytical capacity to navigate complex business environments. An intelligent leader demonstrates maturity by carefully weighing the pros and cons of various options before making decisions. This quality does not prohibit positive thinking; rather, it encourages an analytical mindset that can find constructive solutions even when faced with difficult circumstances.

7. (B) Directing
Directing is a fundamental management function that encompasses the interpersonal aspects of leading a workforce. It involves a combination of supervision, motivation, leadership, and communication to ensure employees work toward organizational objectives. This process is essential for guiding subordinates and providing the necessary support to transform institutional goals into actual achievements through coordinated and purposeful human effort and guidance.

8. (B) Friend, Philosopher and Guide
Managers often take on roles beyond technical supervision, acting as a friend, philosopher, and guide to their subordinates. This involves listening to personal concerns, providing emotional support or therapy during crises, and helping resolve conflicts. By drawing on life experiences to offer direction, the manager creates a deeper bond of trust and provides holistic guidance to employees during difficult times.

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9. (B) A leader feels accountable for corporate goals to maximize follower talent.
A sense of responsibility reflects a leader's internal commitment to achieving corporate objectives. This quality drives the leader to feel personally accountable for the success or failure of their team. By taking ownership of the outcomes, the leader is motivated to maximize the talents and efforts of their followers, ensuring that all actions align with the broader organizational goals and mission.

10. (A) I and II
Directing is vital because it coordinates human efforts by providing the necessary instructions and oversight to subordinates. Furthermore, it plays a key role in motivation by utilizing incentives to boost performance and morale. Contrary to increasing duplication, effective directing seeks to streamline operations and ensure that resources are used efficiently to achieve maximum organizational output through clear communication and guidance.

11. (D) Authoritarian Leadership
The authoritarian leadership style is characterized by centralized decision-making and high control, where the manager issues directives without team consultation. This approach is particularly effective during emergencies or critical system failures when time is limited and the leader possesses the most expertise. It allows for rapid action and clear instructions, ensuring that urgent problems are resolved efficiently without unnecessary team delay.

12. (C) It treats all workers uniformly, ignoring unique individual circumstances.
Effective directing is a pervasive function present at every hierarchical level where managers must provide inspiration and guidance to their staff. While it ensures work completion for firm expansion, it does not treat workers as uniform machines. Instead, a successful directing process recognizes individual differences and circumstances, tailoring motivation and supervision to the unique needs of different employees within the organization.

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13. (A) By coordinating efforts and influence to secure employee cooperation.
Reconciling personal and business goals is a primary responsibility of leadership. A leader achieves this by using their influence to coordinate individual efforts toward a shared vision. By securing employee cooperation and demonstrating how professional success aligns with corporate aims, the leader ensures that personal aspirations contribute to, rather than conflict with, the overall performance and growth of the organization.

14. (C) Positional independence — One leadership model is universally superior in all cases.
Leadership traits include shaping group behavior and utilizing inherent characteristics like intelligence. However, effective leadership is not defined by a single, universally superior model. Instead, leadership is often situational, meaning the most effective style depends on the specific context, the team members involved, and the nature of the tasks. Rigidly following one model ignores the dynamic needs of modern organizations.

15. (C) Both I and II
Building trust within a team requires a leader to demonstrate both competence and confidence. By possessing a thorough knowledge of the tasks performed by subordinates, a leader earns respect and professional faith. Simultaneously, self-assurance is vital for facing challenges with determination. These two qualities combined allow a leader to win the trust of subordinates and lead the team effectively toward its goals.

16. (A) It persists regardless of personnel turnover or managerial changes.
Directing is a continuous activity that remains constant throughout the life of an organization. It does not cease when managers or employees leave the firm; rather, it persists as an ongoing process of providing instructions, motivation, and supervision. This continuity ensures that the organization remains focused on its objectives and maintains its operational momentum regardless of changes in the workforce.

17. (A) Intolerance to change
Good leadership requires several specific qualities, including compassion, a humanist

approach, and an outward look. These traits allow a leader to connect with people and understand external market trends. Intolerance to change is not a leadership quality; instead, it is a hindrance. Effective leaders must be adaptable and open to new ideas to navigate the evolving demands of the business world.

18. (A) Only I
Organizational equilibrium is maintained through a combination of leadership, communication, and motivation. These elements ensure stability and balance within the firm. Sustainability is not an index of decline; rather, it represents the organization's ability to remain viable and competitive over the long term. Therefore, while leadership qualities foster balance, sustainability reflects the strength and longevity of the firm's operational model.

19. (D) Objective
Objectivity is a critical leadership quality that involves making decisions based on facts, data, and logical reasoning rather than personal biases or emotions. When a manager chooses a promotion candidate based strictly on performance metrics and technical skills, even when a friend is involved, they demonstrate an objective mindset. This ensures fairness and maintains professional standards within the organizational structure.

20. (A) I, II, and III
Leaders hold several core responsibilities, including acting as organizational representatives and integrating employee goals with business objectives. They must also secure cooperation during the planning process to ensure policy implementation. Effective leaders do not avoid new ideas; on the contrary, they are expected to be proactive in suggesting and initiating new programs that drive the organization forward and improve efficiency.

21. (C) Vision and foresight
Vision and foresight involve the ability to look beyond current operations and anticipate future trends or technological shifts. By visualizing long-term scenarios and creating programs to align the company accordingly, a leader demonstrates this vital quality. It allows the organization to remain proactive and competitive, ensuring that current strategies are building toward a successful future in a changing market landscape.

22. (B) Staffing
Directing consists of four primary components: supervision, motivation, leadership, and communication. These elements work together to guide employees toward organizational goals. Staffing, however, is a separate management function that involves the recruitment, selection, and placement of personnel. While staffing provides the human resources, directing is the process through which those resources are managed and inspired to perform their daily tasks.

23. (D) Leadership
Leadership is specifically defined as the capacity to influence and convince others to eagerly pursue predetermined organizational goals. Unlike general management, which focuses on administrative processes, leadership emphasizes the interpersonal ability to inspire followers. It is the catalyst that transforms a group of individuals into a cohesive team working together with enthusiasm and dedication toward a common vision or objective.

24. (D) Compassion dictates that fairness should be ignored when addressing complaints.
Effective leadership is built on intelligence, self-assurance, and a deep knowledge of the work performed by subordinates. These qualities help in making informed decisions and building trust. Compassion does not mean ignoring fairness; rather, it involves being sympathetic and understanding when addressing employee concerns. Fair and compassionate treatment of complaints is essential for maintaining a positive and productive organizational atmosphere.

25. (A) I, II, III, and IV
Effective leadership is a multi-person interpersonal process that shapes group behavior to achieve company goals. It draws on inherent characteristics such as intelligence and maturity. There is no single universal model for leadership; instead, different situations require different approaches. Successful leaders adapt their style to the needs of the team and the specific challenges they face, rather than relying on one model.

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26. (D) It flows from higher levels of management down to the lower levels.
The directing function follows the formal organizational hierarchy, flowing from the top levels of management down to the lower levels. Every superior provides direction to their immediate subordinates, creating a chain of instruction and guidance throughout the enterprise. This downward flow ensures that organizational goals and policies are communicated and implemented consistently across all departments and operational units of the firm.

27. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Leaders must adopt a humanist approach because they interact with employees daily and often deal with their personal challenges. By treating subordinates with humanitarian concern, a leader creates a favorable environment for growth and trust. Direct interaction necessitates an understanding of the human element, making humanitarian treatment a practical and essential strategy for maintaining a healthy, motivated, and productive workforce.

28. (A) Adapting to changing circumstances
Directing plays a crucial role in helping an organization adapt to changes, such as technological transitions from manual to automated processes. By explaining the context of these adjustments and providing specific guidance, management ensures that employees understand and accept the changes. This facilitates a seamless transition and ensures that the organization can successfully integrate new technologies or methods without disrupting operations.

29. (C) Humanist
A humanist leader treats employees as human beings rather than mere tools of production. This involves showing genuine concern for their daily personal challenges and fostering an atmosphere favorable to growth. By exercising caution, focus, and humanitarian concern in their interactions, the manager demonstrates this quality, which helps in building a supportive organizational culture where employees feel valued and respected.

30. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Directing acts as the initiator of action because real work cannot begin until instructions are provided and understood by the employees. The responsibility of providing these instructions effectively determines when and how a subordinate's workday starts. Without this clear direction, the workforce lacks the necessary guidance to execute tasks, meaning other management functions remain preparatory until direction initiates activity.

31. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Delegative leadership, while providing autonomy, can lead to low morale if team members feel uninspired by a lack of guidance. Furthermore, the absence of strong leadership can result in friction and lack of cohesion, causing the group to fragment. When members are left entirely to their own devices without sufficient oversight, they may move in different directions, leading to failure.

32. (B) Conformational Changes involve physical workplace shifts to aid staff.
Motivation consists of three primary components: activation, perseverance, and intensity. Activation refers to the internal decision to initiate a specific behavior, rather than physical workplace shifts. Perseverance involves the persistent effort to overcome obstacles, while intensity reflects the enthusiasm and dedication applied to a goal. These components combined determine the strength and direction of human behavior in pursuing objectives.

33. (B) P-4, Q-2, R-3, S-1
Participative leadership offers several advantages that enhance organizational performance. It increases inspiration by improving worker gratification, and utilizes creative potential more effectively by involving staff in decisions. This style also aids development by building powerful, cohesive teams and boosts productivity to high levels. These benefits arise from the collaborative nature of the style, which empowers employees and fosters a sense of ownership.

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34. (D) Intensity
Intensity in motivation is the visible manifestation of the energy and dedication one puts into a task. When two individuals work toward the same goal, the difference in their effort—such as studying consistently versus occasionally—illustrates a variance in intensity. The more enthusiastic and focused an individual is, the higher their level of intensity, which directly impacts the likelihood of achieving their goals.

35. (A) Delegative
Delegative leadership, also known as laissez-faire, involves giving highly experienced and knowledgeable team members complete freedom to make decisions. This style is most effective in environments like research labs where professionals take personal responsibility for their work. By handing over initiative and avoiding close supervision, the leader allows for high levels of inventiveness and productivity among experts who require minimal guidance.

36. (A) P-3, Q-1, R-2
The ERG theory categorizes human needs into existence, relatedness, and growth. Existence needs are the most tangible, focusing on physical and mental well-being. Relatedness needs involve the desire for healthy relationships and a sense of community. Growth needs are the least tangible, centered on self-fulfillment and realizing one's potential. This framework provides a structured way to understand what motivates individuals based on need satisfaction.

37. (A) A leadership model
A leadership model provides a theoretical framework that helps managers define practices suitable to their individual personality and work style. These models offer a methodology for understanding how to interact with subordinates and achieve goals effectively. By providing structure to leadership activities, these frameworks guide managers in choosing the most appropriate approach for their specific organizational environment and the unique needs of their team.

38. (D) It can cause over-justification, reducing intrinsic motivation.
Over-justification occurs when an individual is offered external rewards, like money or prizes, for an activity they already find intrinsically rewarding. This shift can lead the person to view the task as a job rather than a passion, which ultimately reduces their internal drive. Once the external reward is removed, the individual may lose interest in the activity entirely, demonstrating a decline in motivation.

39. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Perseverance is a persistent effort toward a goal despite obstacles, such as the investment of significant time and resources into education. Enrolling in additional classes and continuing to study through challenges exemplifies this component of motivation. It demonstrates the determination required to stay the course and achieve long-term objectives, even when the path becomes difficult or requires extensive personal sacrifices.

40. (A) I, II, III, and IV
Transformational leadership focuses on providing a compelling vision and using various motivational methods to gain support. It leads to high morale and decreased employee turnover by emphasizing the importance of organizational goals. This style relies on the interaction between parties to inspire change. It does not rely purely on monetary incentives; instead, it uses inspiration and personal example to motivate followers toward excellence.

41. (D) I, II, and III
In the two-factor theory, motivational factors are those that truly inspire employees to perform at their best. These factors are intrinsic to the work itself and include a sense of accomplishment, recognition for achievements, and the challenging nature of the tasks. Unlike hygiene factors, which only prevent dissatisfaction, these motivators provide the positive satisfaction needed to encourage high levels of productivity and employee engagement.

42. (C) Morale — When utilising this technique, employees have good morale.
Transformational leadership is known for boosting employee morale by creating an environment of inspiration and shared vision. This style encourages workers to transcend their personal

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interests for the good of the organization, leading to higher job satisfaction and engagement. High morale is a direct outcome of this leadership paradigm, as employees feel empowered and motivated by the leader's personal example and the compelling future vision.

43. (B) It assists individuals in increasing their productivity while working toward a goal.
Motivation serves as a vital tool for personal and professional development by providing the drive needed to achieve goals. It assists individuals in increasing their productivity and maintaining focus during tasks. Furthermore, healthy motivation helps people make positive choices, take calculated risks, and regain a sense of mastery over their lives. It is essential for shifting behavior away from harmful patterns and toward constructive, goal-oriented activities.

44. (D) Transactional
Transactional leadership is a style centered on clear objectives, established routines, and a system of rewards or punishments. The manager focuses on achieving specific quotas and ensuring that employees understand the consequences of their performance. This approach does not seek to change existing procedures but rather emphasizes efficiency and compliance within the current organizational framework to meet short-term goals through straightforward communication and incentives.

45. (C) Hierarchy of Needs
The ERG theory of motivation was developed by Clayton Alderfer as a modification of Maslow's Hierarchy of Needs. Alderfer simplified Maslow's five levels into three categories: Existence, Relatedness, and Growth. Unlike Maslow's rigid progression, the ERG model allows for more flexibility, suggesting that multiple needs can be active simultaneously and that individuals might regress to lower-level needs if higher-level needs remain unfulfilled.

46. (B) P-3, Q-1, R-4, S-2
Leadership styles are categorized by their approach to authority and decision-making. Authoritarian leaders set results and enforce expectations centrally. Participative leaders involve the whole team in decisions. Delegative leadership, or laissez-faire, hands over initiative to team members. Transactional leadership relies on a system of incentives and communications to achieve work goals. Each style has distinct characteristics that impact team creativity, morale, and organizational accountability.

47. (B) Over-justification effect reducing intrinsic motivation.
The over-justification effect occurs when external rewards are introduced for an activity that was previously enjoyed for its own sake. In the drawing experiment, providing rewards led children to spend less time drawing later, as their internal passion was replaced by a focus on the prize. This illustrates how poorly applied extrinsic rewards can actually decrease long-term motivation for tasks that are naturally interesting or enjoyable.

48. (A) I, III, and IV
Transactional leadership is a straightforward style focused on efficiency, measurable objectives, and adhering to established routines. It is simple for managers to implement and clear for workers to follow. This approach does not aim to create radical organizational changes; instead, it ensures that existing processes are followed correctly. It uses specific rewards and detailed targets to manage the workforce and maintain steady operational performance.

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49. (A) Relatedness
Motivation consists of three primary components: activation, perseverance, and intensity. Activation involves the decision to initiate a behavior. Perseverance is the persistent effort to achieve a goal despite obstacles. Intensity is the level of energy and dedication applied to the task. Relatedness, while an important concept in need-based theories like ERG, is not one of the three fundamental components that define the motivational process itself.

50. (A) I, II, III, and IV
Transformational leadership has potential drawbacks, including the possibility of leaders being deceptive to gain support. It often requires constant feedback and encouragement, which can be time-consuming. Decisions may stall if they require team approval, and the focus on vision can sometimes lead to a divergence from established organizational protocols. These

disadvantages highlight that while the style is inspiring, it requires careful management to ensure long-term stability and integrity.

51. (D) Absent hygiene factors reduce effort, while motivators inspire peak performance.
Herzberg's two-factor theory distinguishes between hygiene factors and motivators. Hygiene factors, such as company policies and working conditions, prevent dissatisfaction but do not necessarily inspire extra effort. In contrast, motivating factors, like achievement and recognition, provide the positive satisfaction needed to encourage peak performance. While the absence of hygiene factors reduces effort, motivators are required to truly inspire employees to reach their maximum potential.

52. (D) Transactional — Empathy adds significant value and improves efficiency.
Each leadership style has specific disadvantages. Authoritarianism can cause worker discontent, while participative leadership can lead to poor decisions if the team lacks skills. Delegative leadership may result in group friction due to lack of clarity. Transactional leadership often lacks empathy, as it focuses strictly on rules and incentives. This absence of empathy is a drawback that can limit the development of deep employee engagement and emotional connection.

53. (C) Participative
Participative leadership involves involving team members in brainstorming and decision-making processes. This style increases job satisfaction and utilizes the creative potential of the group. However, because it seeks input from multiple parties, reaching a final decision can be time-consuming compared to more centralized styles. Despite the longer timelines, the collaborative approach often leads to better-informed decisions and higher levels of commitment from the employees involved.

54. (A) Only I
Motivation is a universal force that provides the guidance needed to complete tasks across all human behaviors. It is not limited to the professional workplace; it plays a vital role in everyday life activities, such as fitness or personal hobbies. Motivation provides the mental drive necessary to initiate and sustain effort toward any objective, making it a central component of human psychology in both personal and professional contexts.

55. (A) Motivation from within to engage in inherently rewarding behaviour.
Intrinsic motivation occurs when an individual engages in an activity because they find it inherently rewarding or enjoyable. The drive comes from within the person rather than from external rewards like money or status. This type of motivation is often more sustainable and leads to higher quality work, as the individual is genuinely interested in the task itself and derives personal satisfaction from performing it.

56. (A) P-3, Q-4, R-2, S-1
Different leadership styles have unique drawbacks. Participative leadership can be slow in decision-making and may present security risks due to open information sharing. Transactional leadership tends to develop followers rather than future leaders because of its focus on routines. Delegative leadership can result in a lack of clear accountability, as the chain of command may become blurred when the leader hands over too much initiative to the team.

57. (B) Existence, Relatedness, Growth
In the ERG theory, needs are organized by their degree of tangibility. Existence needs are the most tangible, as they relate to basic physical and safety requirements. Relatedness needs are less tangible, focusing on interpersonal relationships and social connections. Growth needs are the least tangible, centering on personal development and self-actualization. This hierarchy allows for a more flexible understanding of human motivation compared to other psychological models.

58. (A) Authoritarian
The authoritarian leadership style involves a clear chain of command where the leader makes all decisions without subordinate input. While this approach reduces repetition and ensures that orders are followed quickly, it often stifles innovation and original thinking among workers. By strictly enforcing expectations and centralizing control, the manager prioritizes operational consistency over the creative development of the

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workforce, which can limit long-term problem-solving.

59. (C) Intensity
Intensity is the motivational component that reflects the amount of effort, energy, and enthusiasm an individual applies to a goal. It is the visible manifestation of dedication, such as a student actively participating in every classroom discussion. While other components like perseverance focus on the duration of effort, intensity focuses on the vigor and concentration with which the task is pursued at any given moment.

60. (B) Transformational
Transformational leadership is defined by the leader's ability to provide a compelling vision and inspire employees to achieve it. By acting as a personal example and empowering the team, the leader fosters deep commitment and lowers turnover. This paradigm focuses on changing the organization by inspiring individuals to transcend their personal interests for a shared goal, creating a highly motivated and loyal workforce in the process.

61. (C) Need for Power
The need for power involves a desire to influence, coach, or encourage others to achieve goals. Individuals with this need are often vocal, assertive, and enjoy participating in debates to gain sway over their peers. They seek to have an impact on their environment and are motivated by the ability to direct others. This trait is a key component of the three-needs theory of motivation.

62. (A) It involves conscious interaction and thoughtful response developed over time.
The dynamic model of communication views the process as an evolving and interactive exchange. Unlike rigid linear models, it emphasizes conscious interaction where participants develop thoughtful responses over time. This model acknowledges the human element, where feedback and the context of the relationship influence how messages are sent, received, and interpreted. It highlights that communication is a continuous, fluid process rather than a simple transmission of data.

63. (A) Responsibility
In the two-factor theory, responsibility is a motivating factor that provides satisfaction when employees feel they have ownership over their work. If an employee feels overly managed and lacks this sense of ownership, they may experience a decrease in motivation. Providing subordinates with the authority to make decisions and be accountable for their outcomes is essential for inspiring engagement and high-quality performance in a professional setting.

64. (A) I, II, and IV
Organizational communication is a strategic tool that directly contributes to learning, engagement, and retention. It is highly relevant in competitive markets for talent, as it fosters satisfaction and trust. Furthermore, effective communication improves safety, innovation, and the quality of decision-making by ensuring that information flows accurately. It acts as the glue that binds various departments and individuals together, ensuring everyone is aligned with organizational goals.

65. (B) I, III, IV, and V
Expectancy theory suggests that leaders should provide rewards that employees value and set goals that are challenging yet within reach. It is also crucial for teams to have the authority to work independently and for promised incentives to be delivered promptly when earned. By aligning effort with performance and performance with meaningful rewards, organizations can effectively motivate individuals to perform at their highest level.

66. (A) Generations speaking different languages regarding expectations.
Effective communication requires recognizing that different generations often have distinct expectations and communication styles. While older generations may value traditional loyalty and detailed explanations, younger generations like Millennials often prefer concise, fluid communication models. A manager who adapts their messaging to match these generational perspectives ensures that their directives are better understood and that employees feel more engaged and respected within the organizational hierarchy.

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67. (B) I, II, III, and IV
Hygiene factors in the two-factor theory include company policies, supervision, interpersonal relationships, and compensation. These elements are external to the task itself but are necessary to prevent dissatisfaction in the workplace. While improving hygiene factors does not necessarily lead to long-term motivation, their absence or inadequacy significantly decreases employee effort and morale. Therefore, maintaining these factors is essential for creating a stable and functional work environment.

68. (B) I.A. Richards
I.A. Richards provided a psychological definition of communication, describing it as a process where one mind influences another by acting upon the environment. According to this view, communication is successful when the receiver has an experience similar to that of the sender. This definition emphasizes the interpersonal and influential nature of communication, focusing on how ideas and experiences are shared and replicated between individuals through interaction.

69. (A) Diagonally
In a traditional organizational structure, communication typically filters in three primary directions: upward, downward, and horizontally. Upward communication flows from subordinates to superiors, while downward communication carries instructions from management to staff. Horizontal communication occurs between employees at the same hierarchical level. These paths ensure that information, feedback, and directives are distributed throughout the organization to maintain operational efficiency and departmental coordination.

70. (C) Need for Achievement
The need for achievement is characterized by a drive to excel and a desire to perform tasks effectively for the sake of accomplishment itself. Individuals with this need derive more satisfaction from the joy of succeeding at a challenging task than from external rewards like money. They set moderately difficult goals, take personal responsibility, and seek feedback to ensure they are meeting their high standards of excellence.

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71. (A) Extra-personal Communication
Communication can occur across various levels, and extra-personal communication specifically involves interactions between human beings and non-human entities. In scenarios where a trainer uses sign language or specialized commands to direct an intelligent service animal, this specialized form of messaging is utilized. It demonstrates the broad scope of communication beyond traditional interpersonal or organizational interactions within a professional environment, involving biological entities other than humans.

72. (B) Affiliative people avoid interaction and prefer isolated work setups.
The need for affiliation reflects a desire for social interaction and the development of close interpersonal relationships. People with high n-affiliation gain pleasure from being liked and accepted by others. They find it rewarding to offer assistance and consolation and generally prefer collaborative environments over isolated work setups. This trait is essential for roles that require teamwork, customer service, and the maintenance of positive group dynamics.

73. (A) Origin of information, Transmission, Transmission channel, Receiver, Destination
The linear model of communication describes the process as a one-way flow of information through five distinct components. It begins with the origin of the message, followed by the transmission process. The message then travels through a specific channel to reach the receiver. Finally, the information arrives at its destination. This model focuses on the technical aspects of message delivery, emphasizing how data moves from sender to recipient.

74. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Instrumentality is a key variable in expectancy theory, referring to the belief that achieving a specific performance level will lead to a desired reward. If an individual lacks faith that the promised rewards will actually materialize, their overall motivation will decrease. Therefore, for motivation to remain high, employees must believe that their successful outcomes will be reliably followed by the expected gratifications or incentives.

75. (D) Intrapersonal Communication
Intrapersonal communication is the internal dialogue that occurs within an individual's own mind. It involves self-awareness, self-reflection, and personal decision-making. When a person analyzes their own situation, such as their health, and devises a plan for themselves without external input, they are communicating with themselves. this level of communication is fundamental to personal development, as it allows individuals to process information and regulate their own behavior.

76. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
According to the two-factor theory, compensation policies and working conditions are hygiene factors. While they do not necessarily inspire high performance, their absence leads to significant dissatisfaction and decreased effort. Employees are less likely to work hard if they feel their pay or environment is inadequate. Therefore, managing these external factors is a prerequisite for preventing a decline in productivity and ensuring basic employee commitment.

77. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Intrapersonal communication involves the human capacity for self-awareness and internal reflection. By "telling ourselves the truth" and evaluating our own past actions, we engage in a form of internal messaging that helps us understand our motives and behaviors. This self-reflection is an essential part of intrapersonal communication, allowing individuals to process their experiences and make informed decisions about their future conduct and personal growth.

78. (D) Assertion (A) is false, but Reason (R) is true.
The performance-satisfaction model suggests that performance is not always a direct result of being satisfied. Instead, it argues that satisfaction may be an outcome of performance, particularly when that performance is rewarded. However, the theory also warns that once people reach their goals and achieve satisfaction, they may become complacent. Therefore, satisfaction and performance have a complex relationship mediated by rewards and individual drive.

79. (A) It is irreversible and active listening should always be practised.
For business success, communication must be understood as an irreversible process; once a message is sent, it cannot be truly taken back. Additionally, active listening is essential to ensure that messages are understood correctly and that feedback is meaningful. These two tenets ensure that organizational communication is handled with care and that all parties are fully engaged in the exchange of information, leading to better coordination.

80. (D) Equity Theory
Equity theory focuses on how individuals perceive the fairness of their rewards compared to their peers. When a worker perceives an injustice, such as a colleague earning more for the same effort, they may experience distress. To reduce this tension, the individual might use "cognitive distortions," such as mentally devaluing their own work, to make the situation seem more equitable in their mind without taking external action.

81. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Effective communication acts as a unifying force in an organization, bridging differences in language and background. While it is true that communication breakdowns cause confusion and increase the risk of failure, this fact describes the negative consequences of poor communication rather than explaining why it acts as a "glue." Both statements are factually correct regarding the importance of communication, but they address different aspects of its organizational impact.

82. (A) Need for Existence
McClelland's three-needs theory identifies achievement, power, and affiliation as the primary motivators that drive human behavior. The need for existence, however, is a concept found in Alderfer's ERG theory, not the three-needs theory. McClelland's framework focuses on acquired psychological needs that individuals develop over time, whereas the ERG theory categorizes more fundamental biological and social requirements. Understanding these

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distinctions is key to applying the correct motivational model.

83. (C) Both I and II
Equity theory centers on the concept of perceived fairness in the distribution of resources and rewards. Employees constantly compare their inputs and outcomes with those of others. If they sense a disparity, they may attempt to restore balance by distorting their perceptions of these inputs and results in their own minds. This internal adjustment helps them cope with the perceived unfairness, though it may also impact their future motivation.

84. (C) P-2, Q-4, R-1, S-3
Communication occurs at several distinct levels. Extra-personal involves interactions with non-human entities. Interpersonal requires two or more people using a shared language. Intrapersonal is the internal dialogue of self-reflection. Mass communication uses technology and media to reach a wide, dispersed audience. Each level plays a specific role in how information is shared and processed within and outside of an organization to achieve various personal and professional goals.

85. (B) Why does it happen?
Harold Lasswell described communication through five standard questions: Who? Says what? In which channel? To whom? With what effect? These questions help analyze the components of any communicative act. The question of "Why does it happen?" is not part of this specific descriptive framework. By answering these five questions, managers can better understand how information is being transmitted and whether it is achieving the intended results within the organization.

86. (A) High achievers seek immediate feedback on the work they perform.
In the three-needs theory, high achievers are individuals who are driven by the desire to succeed and excel. They prefer tasks with a moderate degree of difficulty where they can take personal responsibility for the outcome. A key characteristic of high achievers is their desire for immediate feedback, which allows them to track their progress and make necessary adjustments to ensure they meet their high standards of performance.

87. (D) I, II, and III
Generational differences significantly impact views on work-life balance. Traditional generations often saw work as the central focus of their lives. Generation X introduced the desire for a clear balance between professional and personal time. Generation Y (Millennials) tends to look for a smooth integration of work and life, viewing them as interconnected rather than separate. Understanding these varying perspectives is essential for managers to effectively motivate and retain a multi-generational workforce.

88. (B) P-4, Q-3, R-1, S-2
Motivational theories provide different lenses for understanding human behavior. Porter and Lawler suggest performance-satisfaction is mediated by rewards. Equity theory focuses on perceived fairness among peers. Expectancy theory views motivation as a product of valence, expectancy, and instrumentality. Self-determination theory emphasizes intrinsic motivation and personal responsibility. These theories help managers design compensation and engagement strategies that cater to the diverse psychological drivers of their employees and teams.

89. (D) Intrapersonal communication involves interactions with non-human biological entities.
Communication levels are defined by the participants involved. Interpersonal communication involves at least two people, and organizational communication follows hierarchical paths. Mass communication reaches broad audiences through media. Intrapersonal communication, however, is strictly an internal process within one person's mind. Interactions with non-human biological entities fall under the category of extra-personal communication. Understanding these definitions is vital for clear analysis of communication processes in various professional settings.

90. (A) Valence
In expectancy theory, valence is the degree of value or importance an individual assigns to the rewards offered for their performance. If an employee does not value the gratifications associated with their work, their motivation will

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be low, even if they believe they can perform the task. For high motivation, the individual must believe their effort will lead to performance, and that the resulting rewards are personally desirable.

91. (B) P-2, Q-4, R-1, S-3
Supervision is essential for coordinating workplace activities. It involves issuing clear instructions and resolving doubts to ensure tasks are understood. Supervisors plan and organize by preparing work schedules for a steady flow. Proper assignment of work involves systematically allotting activities to prevent overburdening or idleness. Finally, supervisors act as a vital link, communicating policies downward and providing feedback on employee complaints upward to management for better organizational harmony.

92. (A) I, II, and III
Effective supervisors must possess a blend of technical, conceptual, and human relations skills. They need personal qualities like empathy, honesty, and courage to lead effectively. Additionally, they must be able to judge the appropriate degree of supervision required for their team. Inciting factionalism is not a quality but a failure; instead, a supervisor should work to promote group cohesiveness and harmony to ensure the team achieves its goals.

93. (D) 'From the above' and 'to see'
The word "supervision" is derived from the Latin words "super," meaning from above, and "vision," meaning to see. Literally, it means to oversee or watch from a superior position. In a management context, this translates to the act of guiding and directing the work of subordinates to ensure that tasks are performed correctly and that organizational objectives are met through the direct oversight of the workforce.

94. (A) I and III
A supervisor plays a key role in bridging the gap between management and workers by communicating plans and policies. They also act as mentors and motivators, supporting the professional development of their subordinates. While they provide guidance to their team, they do not provide therapy to top management. Their primary focus is on the operational level, ensuring that subordinates are directed and inspired to fulfill their daily organizational responsibilities.

95. (D) It produces better results as members share responsibility for common goals.
Group cohesiveness refers to the level of attraction members have for their group and each other. High cohesiveness leads to better organizational results because team members are more likely to share responsibility and work together toward common goals. When a group is cohesive, communication is more effective, and members are more committed to the collective success of the team, which reduces conflict and increases overall productivity and morale.

96. (B) V. Viteles
V. Viteles provided a specific definition of supervision, describing it as the direct and immediate guidance and control of subordinates as they perform their tasks. This definition emphasizes the hands-on nature of the supervisory role, focusing on the real-time oversight and support needed to ensure that work is completed according to established standards. It highlights the supervisor's responsibility for the daily operational performance and direct management of the workforce.

97. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
A supervisor's primary duty is to ensure that all instructions are clearly communicated to employees. This is essential because subordinates can only perform effectively when they have a full understanding of their tasks. Clear communication eliminates confusion and sets the stage for productive work. Therefore, the supervisor's role in providing and clarifying instructions is directly linked to the quality and efficiency of the performance delivered by the team.

98. (B) P-2, Q-3, R-1, S-4
Effective supervisors demonstrate various qualities to manage their teams. They use leadership to influence subordinate behavior and decide on the appropriate degree of supervision to maintain morale. Promoting cohesiveness involves creating a supportive environment where responsibility is shared. Additionally,

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maintaining rapport with superiors allows supervisors to represent their subordinates' views effectively. These qualities combined ensure that the supervisor can manage both their team and their relationship with higher management.

99. (A) I, II, III, and IV
Supervision is important for several reasons, including issuing instructions, planning work, and ensuring the proper assignment of tasks. It also leads to the better utilization of resources by providing the necessary guidance to minimize waste. However, effective supervision does not eradicate upward communication; instead, it encourages it to ensure that management receives feedback. By focusing on these key points, supervision ensures that the organization operates smoothly and efficiently at the ground level.

100. (A) Only I
Proper assignment of work is crucial to prevent some workers from being overburdened while others have too much free time. Systematic allotment of activities ensures a balanced workload and efficient use of resources. While this process organizes the work, it does not eliminate the need for delegating authority. In fact, delegating authority to workers can often enhance the effectiveness of work assignments by empowering employees to manage their specific tasks more autonomously.

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CHAPTER 06
Controlling

Oct/Nov 2012

1. Based on the timing of the control, how many types of control management are broadly classified?
(A) Two
(B) Three
(C) Four
(D) Five

May/June 2021

2. Which of the following accurately describes IT application controls?
(A) They are general controls designed to manage physical access to the server rooms.
(B) They serve a uniform business purpose across all possible applications universally.
(C) They are automated system checks ensuring data is processed correctly from input to output.
(D) They address incident management errors through manual supervisory inspections.

Oct/Nov 2005

3. In the context of modern control techniques, what does "Return on Investment" (ROI) refer to?
(A) The evaluation of performance across functional areas using averages and percentages.
(B) The amount of responsibility placed on individual employees based on revenue centers.
(C) The profit made from capital that has been invested, also known as the Du-Pont Method.
(D) The longest sequence of activities that must be finished on time for project completion.

May/June 2007

4. Which of the following is not correctly described as a distinct category of responsibility centres in responsibility accounting?
(A) Revenue Centre
(B) Cost Centre
(C) Loss Centre
(D) Investment Centre

Oct/Nov 2018

5. In the context of IT general controls (ITGC), what does controlling the environment by setting the "tone at the top" primarily achieve?
(A) It ensures the logical access policies are mathematically validated.
(B) It moulds the company's culture towards compliance and proper governance.
(C) It controls the physical safety of information technology from environmental hazards.
(D) It restricts users to only business applications that have been pre-approved.

May/June 2014

6. Traditional control techniques have been developed and utilized by managers for an extended period. Which of the following is NOT classified as a traditional technique?
(A) Personal Observation
(B) PERT & CPM
(C) Break-even Analysis
(D) Budgetary Control

Oct/Nov 2022

7. Controlling refers to a specific method implemented within an organisation. Which of the following defines the "Controlling Process" accurately?
(A) The formulation of overarching goals and assigning tasks to various departments to ensure future expansion.
(B) A method of gathering information to check if specific criteria are met for making informed decisions.
(C) The procedure through which activities of a project are represented in their appropriate sequence and timing.
(D) The forecasting of profits and losses that will result from changes in the amount of output produced.

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May/June 2009

8. Which of the following statements accurately represents a characteristic of controlling?
(A) Controlling eliminates the need for future planning by permanently fixing established standards.
(B) The exercise of control reduces the number of errors that occur within the organisation.
(C) The process of controlling employees reduces morale due to strict supervision and discipline.
(D) Controlling strictly focuses on maximizing the usage of financial capital, ignoring human resources.

Oct/Nov 2010

9. Which of the following statements regarding the control process is incorrect?
(A) The primary objective of control is to steer the activities of a company in the direction of established goals.
(B) Tangible goals are those which cannot be easily quantified in terms of numbers.
(C) Managers need to measure actual performance before comparing it to past performance.
(D) Corrective actions can mitigate existing damage and prevent it from occurring again.

May/June 2025

10. The modern control technique of Return on Investment (ROI) is also known by which of the following names in financial analysis?
(A) The Treadway Method
(B) The Sarbanes-Oxley Method
(C) The Du-Pont Method
(D) The PERT/CPM Method

Oct/Nov 2016

11. COBIT provides detailed guidance for information technology governance. Which of the following is NOT one of the four COBIT major domains?
(A) Planning and organising
(B) Acquiring and implementing
(C) Monitoring and evaluating
(D) Authorising and dispensing

May/June 2013

12. What is the definition of "Management Information System" (MIS)?
(A) A framework that addresses governance problems by combining relevant governance components.
(B) A process of continuous internal audit whose periodicity depends on the size of the organisation.
(C) A system providing reliable information for sound decisions and managing large data quantities.
(D) A traditional control technique used to maintain control over everyday physical business activities.

Oct/Nov 2024

13. Regarding budgetary control, which of the following statements is correct?
(A) It plans operations and compares that planning to actual performance results.
(B) Once a final budget is formulated, it is guaranteed to be fully accurate and completely free of costs.
(C) It operates independently of overarching goals, focusing only on individual departmental desires.
(D) Budgetary control represents a modern technique introduced recently in management literature.

May/June 2006

14. How does proactive control conceptually differ from concurrent control?
(A) Proactive control involves real-time engagement, whereas concurrent control anticipates problems in advance.
(B) Proactive control relies on feedback after the activity, whereas concurrent control depends on future strategies.
(C) Proactive control anticipates problems early, whereas concurrent control acts during the activity.
(D) Proactive control is applied only at the audit stage, whereas concurrent control is applied via observation.

Oct/Nov 2019

15. Controlling has certain limitations. Which of the following is NOT a limitation of controlling?
(A) It is difficult to compare actual performance with qualitative standards like team spirit.
(B) It may lead to a slowdown in operations if rules are implemented rigidly.
(C) It may expose the organisation to more errors and frauds if wrong controls are executed.

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(D) It fails to provide feedback for data improvement in future planning.

May/June 2020

16. Under traditional control techniques, how is the "Break-even point" defined?
(A) The point where total sales revenue is equal to total costs (fixed and variable).
(B) The point at which the actual performance perfectly matches the predetermined standards.
(C) The point where the angle of incidence equals the margin of safety.
(D) The point where proportional changes in fixed and variable costs generate the highest profit.

Oct/Nov 2007

17. Regarding Return on Investment (ROI), which of the following statements is incorrect?
(A) ROI can be increased by raising the total investment while lowering the overall sales volume.
(B) ROI refers to the profit made from capital that has been invested.
(C) ROI can be increased by increasing the volume of sales proportionally greater than the overall investment.
(D) ROI calculation involves the Net Income, Sales, and Total Investment.

May/June 2018

18. Which of the following is NOT one of the criteria on which evaluation is based under the Break-Even Analysis technique?
(A) Coefficient of determination
(B) Angle of Incidence
(C) Contribution Margin
(D) Margin of Safety

Oct/Nov 2011

19. Which statement is correct regarding the COBIT framework?
(A) COBIT was developed by the Committee of Sponsoring Organizations of the Treadway Commission.
(B) COBIT is exclusively focused on managing financial transaction delegations.
(C) COBIT consists of exactly five horizontal layers of a three-dimensional cube.
(D) COBIT provides design considerations for governance systems matching organisational needs.

May/June 2012

20. What is the conceptual purpose behind implementing SDLC (System Development Life Cycle) controls techniques in an IT environment?
(A) To ensure the standardisation of the system development life cycle.
(B) To identify malicious hacking and antivirus threats during runtime.
(C) To guarantee continuous processing through disaster recovery backups.
(D) To automatically delegate financial powers to sub-systems.

Oct/Nov 2021

21. Modern techniques offer novel approaches to the evaluation and management of organisational operations. Which of the following is NOT a modern technique?
(A) Return on Investment
(B) Management Audit
(C) Statistical Reports
(D) Responsibility Accounting

May/June 2015

22. Which of the following is considered the last function of the management process, involving other functions of planning, organising, staffing, and directing?
(A) Evaluating
(B) Controlling
(C) Budgeting
(D) Auditing

Oct/Nov 2008

23. Why is the controlling function fundamentally built on top of the planning function?
(A) Because planning limits the freedom of employees, making controlling unnecessary in a rigid system.
(B) Because planning is a prescriptive activity while controlling remains a purely evaluative management activity.
(C) Because controlling cannot accommodate tangible targets unless they are abstracted by the planning process.
(D) Because controlling measures performance against standards to analyse deviations and take action.

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May/June 2011

24. Which statement regarding the relationship between planning and control is incorrect?
(A) Control monitors deviations from the planned course and takes action to return to it or a more suitable one.
(B) Planning is pointless without controlling, as it is impossible to monitor progression.
(C) Planning is the basis for control, providing the spectrum on which control functions are based.
(D) Planning and control are backward-looking where the past is the only thing strictly controlled.

Oct/Nov 2014

25. Which of the following correctly identifies an advantage of controlling?
(A) It complicates supervision by emphasizing rigid delegation.
(B) It provides feedback for data improvement for future planning.
(C) It eliminates all external factors like changes in consumer behaviour.
(D) It promotes over-dependence on technological changes to validate standard accuracy.

May/June 2019

26. Within project management control techniques, how is the "critical path method" (CPM) defined?
(A) A procedure through which activities of a project are represented in their appropriate sequence and timing.
(B) A system responsible for providing reliable information that facilitates the making of sound decisions.
(C) A process of examining how a company uses its resources, started by the top level of management.
(D) A scheduling technique used to identify necessary tasks and determine scheduling flexibilities.

Oct/Nov 2017

27. The management function of controlling provides several advantages to the organisation. Which of the following is NOT an advantage of controlling?
(A) Eliminates the influence of government policies and competition
(B) Assists in accomplishing organisational goals
(C) Simplifies supervision and helps in delegation and decentralisation
(D) Validates accuracy of standards

May/June 2023

28. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) identifies how many components of internal control?
(A) Three
(B) Four
(C) Five
(D) Six

Oct/Nov 2006

29. Which of the following is an incorrect statement regarding the limitations of controlling?
(A) Controlling may be costly to implement, especially in smaller firms with limited budgets.
(B) There is little or no control on external factors like government policies and technological changes.
(C) Employees always welcome controlling as a way to enhance their freedom and autonomy.
(D) Over-dependence on controls may lead to laxity in supervision by the management team.

May/June 2005

30. When distinguishing between planning and controlling, which of the following best captures their conceptual difference in management?
(A) Planning is considered an evaluative activity, while controlling is more of a prescriptive one.
(B) Planning provides the entire spectrum of deviations, while controlling establishes the course to be taken.
(C) Planning records actual performance data, while controlling establishes objectives and targets in the initial stage.
(D) Planning is a thinking process, while controlling ensures decisions translate into desired actions.

Oct/Nov 2025

31. Consider the following steps in the budgeting process:
I. Determine the logical deviations from the

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plan and take corrective actions
II. Subdividing the overarching goals of the company into those of individual departments
III. A comparison of the actual performance to the budget and standards

Which of the following represents the correct chronological order?
(A) III, II, I
(B) I, II, III
(C) II, III, I
(D) II, I, III

May/June 2016

32. Which of the following pairs of budgets prepared by organisations is incorrectly matched?
(A) Sales Budget — Prepared by organisations
(B) Intangible Motivation Budget — Prepared by organisations
(C) Material Budget — Prepared by organisations
(D) Capital Budget — Prepared by organisations

Oct/Nov 2023

33. The accomplishment of a company's objectives is the primary focus of both planning and controlling. Through their combined efforts, what do they most appropriately hope to achieve?
(A) The complete eradication of all workplace rules and discipline.
(B) The highest possible output at the lowest possible cost.
(C) The implementation of rigid policies that slow down operational freedom.
(D) The elimination of any need for future planning adjustments.

May/June 2022

34. Consider the following statements about IT controls:
I. IT general controls (ITGC) include disaster recovery and physical security controls.
II. IT application controls, such as validity checks, are performed manually by external auditors.

Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2015

35. Match the Modern Control Techniques in List I with their respective descriptions in List II.
List I: (Modern Control Techniques)
P. Return on Investment
Q. Responsibility Accounting
R. PERT & CPM
S. Management Information System
List II: (Descriptions)
1. Centers classified as Revenue, Cost, Profit, Investment
2. Du-Pont Method of financial analysis
3. Focuses on collection and management of data for decision making
4. Scheduling techniques determining task flexibility and critical path
(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-3, R-2, S-4
(C) P-4, Q-2, R-1, S-3
(D) P-3, Q-4, R-3, S-1

May/June 2008

36. Consider the following statements regarding Break-Even Analysis:
I. Total cost involves only variable costs, as fixed costs do not impact the break-even point.
II. The break-even point formula is Fixed Cost divided by (Price - Variable Cost).
III. Evaluation is based on Contribution Margin and Margin of Safety among others.

Which of the above statement(s) is/are correct?
(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

Oct/Nov 2009

37. What is the most important reason managers must continually assess current performance in relation to predetermined goals?
(A) To verify if plans work as intended and prepare to take necessary corrective actions.
(B) To ensure that they can always resort to extraordinary means to solve unforeseen problems.
(C) To delegate responsibility so that subordinates handle all future issues on their own.
(D) To immediately quantify intangible abstract targets into concrete financial numbers.

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May/June 2017

38. Match the IT Framework / Body in List I with its key characteristic or element in List II.

List I: (IT Framework / Body)

P. ITGC Council
Q. CIO / CISO
R. COBIT
S. COSO

List II: (Key Characteristic or Element)

1. Identifies five components of internal control
2. Person accountable for safety, accuracy, and dependability of systems
3. Outlines design considerations for an optimal governance system
4. Serves as the primary pillar asserting reliable system output

(A) P-4, Q-2, R-3, S-1
(B) P-2, Q-1, R-4, S-3
(C) P-3, Q-4, R-1, S-2
(D) P-1, Q-3, R-2, S-4

Oct/Nov 2013

39. Consider the following statements regarding limitations of controlling:

I. There is complete control over external factors like government policies if quantitative standards are applied.
II. Resistance from employees may occur as they may consider controlling as restricting their freedom.

Which of the above statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2010

40. Match the type of Control Management in List I with its defining timing factor in List II.

List I: (Type of Control Management)

P. Feedback control
Q. Proactive control
R. Concurrent control
S. No Control

List II: (Defining Timing Factor)

1. Real-time engagement as activity is carried out
2. Future-directed, anticipates problems well in advance
3. Corrective action taken after the activity has taken place
4. External factors like changes in consumer behaviour

(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-2, R-1, S-4
(C) P-2, Q-3, R-4, S-1
(D) P-4, Q-1, R-2, S-3

Oct/Nov 2020

41. Consider the following statements regarding IT Financial Control Techniques:

I. Delegation of financial powers refers to instructions relating to sub-delegation of financial authority.
II. Budgetary control displays the difference between the standardised amount of time/ money and actual spending.
III. Dual control ensures a higher probability of making mistakes by causing confusion between two employees.

Which of the above statement(s) is/are correct?

(A) I and II
(B) I and III
(C) II and III
(D) I, II, and III

May/June 2024

42. What is the fundamental purpose of conducting a Management Audit?

(A) To conduct an everyday, continuous check on individual employee job satisfaction levels.
(B) To automatically calculate the exact profit made from the capital invested.
(C) To examine resource usage to guarantee that management is performing effectively.
(D) To track the longest sequence of activities that must be finished on time for project completion.

Oct/Nov 2021

43. Which of the following correctly identifies an IT application control with its purpose?

(A) Completeness checks — Ensure the application system is only accessible to pre-approved users.
(B) Authentication — Offers a method for user authentication within the application system.
(C) Input controls — Make sure every user can be definitively pinned down as who they are.
(D) Authorization — Guarantee data integrity

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fed from upstream sources.

May/June 2005

44. Match the types of IT Financial Control Techniques in List I with their operational methods in List II.

List I: (IT Financial Control Techniques)

P. Delegation of financial powers
Q. Authorization
R. Budgetary Control
S. Dual control

List II: (Operational Methods)

1. Two employees check one asset or entry to make sure it is accurate
2. Creating financial ceilings and time limits for projects
3. User verifies identity to gain access to a system login page
4. Instructions issued relating to conduct of business or sub-delegation

(A) P-4, Q-3, R-2, S-1
(B) P-2, Q-1, R-4, S-3
(C) P-3, Q-4, R-1, S-2
(D) P-1, Q-2, R-3, S-4

Oct/Nov 2014

45. Consider the following statements regarding the advantages of controlling:

I. It helps in minimising errors.
II. It validates the accuracy of standards.
III. It leads to decentralisation by simplifying supervision.

Which of the above statement(s) is/are correct?

(A) I and II
(B) I and III
(C) II and III
(D) I, II, and III

May/June 2023

46. When comparing actual performance to predetermined criteria, measuring intangible standards like market reputation and industrial relations is often:

(A) Accomplished effortlessly by hiring financial experts.
(B) A difficult task compared to measuring concrete monetary results.
(C) The only way to quantify sales targets accurately.
(D) Done through the exact calculation of the break-even point.

Oct/Nov 2011

47. Consider the following statements about PERT and CPM:

I. PERT stands for Project Evaluation and Review Technique and is used to schedule, organize, and integrate tasks.
II. The critical path method (CPM) identifies tasks necessary for project completion and determines scheduling flexibilities.

Which of the above statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2012

48. Match the characteristics of controlling in List I with their corresponding outcomes in List II.

List I: (Characteristics of Controlling)

P. Reevaluating previously established standards
Q. Controlling the employees
R. Ensuring correct application of the standard
S. Exercising control

List II: (Outcomes)

1. Reduces the number of errors that occur
2. Motivates employees and boosts morale
3. Ensures accurate planning for the future
4. Judges and maintains operational quality

(A) P-3, Q-2, R-4, S-1
(B) P-2, Q-3, R-1, S-4
(C) P-4, Q-1, R-2, S-3
(D) P-1, Q-4, R-3, S-2

Oct/Nov 2018

49. Which of the following pairs regarding IT control techniques is incorrect?

(A) Cancellation of documents — Reusing cancelled invoices frequently for new transactions
(B) Safekeeping — Locking safes that contain login passwords
(C) Data Processing Environment Controls — Appointing specialists for monitoring electronic and electrical environments
(D) Input and output verification — Checking input or output records for accuracy before accepting

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May/June 2006

50. Match the IT application controls in List I with their definitions in List II.

Answer these questions selecting the appropriate option.
Assertion (A): It is difficult to compare actual performance with standards in cases of job satisfaction and team spirit.
Reason (R): These standards are not expressed in quantitative terms, making accurate measurement a complex task.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2017

75. Read the following scenario and answer the question that follows.
A retail chain seeks greater financial control. The CFO decides to calculate the profit made from the capital that has been invested to evaluate the company's current financial situation using the Du-Pont Method.
What formula will the CFO use?
(A) Fixed Cost / (Price - Variable Cost)
(B) Total Revenue - (Fixed Costs + Variable Costs)
(C) Sales / (Net Income × Total Investment)
(D) (Net Income / Sales) × (Sales / Total Investment)

May/June 2013

76. Consider the following statements regarding the relationship between planning and controlling:
I. Planning is the first step, and controlling is the last step in the process.
II. The control process supplies information that can be used for planning.
III. Both planning and control involve looking into the past to change previous actions.
IV. Controls help planning sustain for the long term.
Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) I, II, and IV
(C) II, III, and IV
(D) I, III, and IV

Oct/Nov 2006

77. Read the following scenario and answer the question that follows.
A manufacturing firm produces electronic components. The finance manager wants to determine the exact volume of production where the total sales revenue equals the total of fixed and variable costs, meaning the firm makes neither profit nor loss.
Which traditional control technique should the finance manager utilize?
(A) Personal Observation
(B) PERT
(C) Statistical Reports
(D) Break-even Analysis

May/June 2025

78. Consider the following statements regarding the limitations of controlling:
I. It may be costly to implement in smaller firms.
II. Difficulty comparing performance with qualitative standards like team spirit.
III. Extreme over-dependence on controls leads to perfect supervision.
IV. Operations may slow down if rules are implemented rigidly.
V. External factors like competition cannot be fully controlled.
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV
(B) I, II, IV, and V
(C) I, III, IV, and V
(D) II, III, IV, and V

Oct/Nov 2022

79. The following questions consist of two statements—Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.
Assertion (A): IT application controls are primarily meant to regulate the physical access of external third parties into the data center.
Reason (R): These controls are fully automated by systems to ensure that data are processed correctly and completely from input until they are output.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation

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ensuring strict compliance without discussion.
(D) It replaces the need for any formal budgeting or statistical reporting.

Oct/Nov 2012

57. Consider the following statements about the characteristics of controlling:
I. Controlling is beneficial to the accomplishment of organisational goals.
II. Discipline and order are established as a result of the process.
III. It results in inefficient use of available resources.
Which of the above statement(s) is/are correct?
(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

May/June 2020

58. Match the control process step in List I with its corresponding management action in List II.
List I: (Control Process Step)
P. Establishing goals
Q. Comparing actual performance
R. Taking corrections
S. Monitoring effects
List II: (Management Action)
1. Mitigating existing damage and preventing recurrence
2. Measuring results in a monetary context or seeking feedback
3. Staying nearby and observing the subordinate's progress
4. Communicating organization's objectives as clearly as possible
(A) P-4, Q-2, R-1, S-3
(B) P-2, Q-4, R-3, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-1, Q-3, R-2, S-4

Oct/Nov 2023

59. Consider the following statements regarding the Basics of Controlling:
I. Controlling entails gathering information about a system, person, or group to make necessary decisions.
II. The controlling function avoids making adjustments, focusing solely on logging deviations.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2009

60. Match the specific IT controls in List I with their intended functions in List II.
List I: (IT Controls)
P. Job Rotation
Q. Physical Access Controls
R. Logical Access Controls
S. BCP Controls
List II: (Intended Functions)
1. Maintaining a sufficient number of backups for business continuity
2. Employees switch roles to reduce the risk of fraudulent activity
3. Thwarting unauthorized third-party entry into the physical data centre
4. Using antivirus software to prevent malicious hacking of systems
(A) P-3, Q-4, R-1, S-2
(B) P-1, Q-2, R-4, S-3
(C) P-2, Q-3, R-4, S-1
(D) P-4, Q-1, R-3, S-2

Oct/Nov 2008

61. Consider the following potential advantages of controlling:
I. Assists in accomplishing Organisational Goals.
II. Helps in minimising errors.
III. Validates accuracy of standards.
IV. Simplifies supervision.
V. Prevents all frauds permanently.
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV
(B) I, II, IV, and V
(C) I, III, IV, and V
(D) II, III, IV, and V

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May/June 2011

62. The following questions consist of two statements—Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.
Assertion (A): Segregation of Duties within the IT system department reduces the risk of fraudulent activity.
Reason (R): It divides key tasks among different individuals so that no single person has control

volume has a negative impact on it.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2011

86. Consider the following types of budgets prepared by organisations:
I. Cash Budget
II. Sales Budget
III. Capital Budget
IV. Production Budget
Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) I, II, and IV
(C) II, III, and IV
(D) I, II, III, and IV

May/June 2015

87. Read the following scenario and answer the question that follows.
During the budgeting process, the finance manager notes that there is a possibility the final budget formulated might turn out to be inaccurate and costly.
Is this a recognized characteristic of budgetary control?
(A) No, budgets are always highly precise and guarantee zero cost overruns during execution.
(B) The possibility that the final budget turns out to be inaccurate and costly.
(C) No, budgetary control only deals with qualitative job satisfaction, not organizational costs.
(D) Yes, but only in the context of IT general controls and server environment maintenance.

Oct/Nov 2014

88. Consider the following components of internal control as identified by COSO:
I. Control environment
II. Risk assessment
III. Control activities
IV. Information and communication
V. Monitoring
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV
(B) I, II, III, and V
(C) II, III, IV, and V
(D) I, II, III, IV, and V

May/June 2019

89. Read the following scenario and answer the question that follows.
A branch manager sets a concrete sales target of ₹50 crores for the quarter. Midway through the quarter, the manager engages in real-time monitoring of the sales activities as they happen, intervening whenever a sales representative struggles with pitching the new product.
Which type of control management is the manager employing?
(A) Feedback control
(B) Concurrent control
(C) Proactive control
(D) Management Audit control

Oct/Nov 2018

90. The following questions consist of two statements—Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.
Assertion (A): Feedback controls allow managers to take corrective action for an activity exactly while it is being carried out.
Reason (R): Feedback controls are based on the feedback received after the activity has taken place.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2012

91. Read the following scenario and answer the question that follows.
Under the COBIT framework, the CISO structures the IT operations across distinct domains. Which of the following activities falls under one of the four major domains of COBIT?
(A) Marketing and selling
(B) Delivering and supporting
(C) Hiring and firing

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personal observation is the ability to acquire genuine and first-hand information for analysis.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

69. Read the following scenario and answer the question that follows.
Continuing from the previous scenario, at the end of the quarter, the sales team achieved only ₹40 crores due to unexpected changes in government taxation policies that negatively affected consumer behavior.
Which limitation of controlling is most evident here?
(A) Lack of control over external factors like government policy or consumer behavior.
(B) Over-dependence on controls leading to laxity in supervision by organizational leaders.
(C) Resistance from employees regarding restricted freedom and operational autonomy.
(D) Difficulty in comparing actual performance with qualitative standards like team spirit.

May/June 2018

70. Consider the following statements regarding the limitations of controlling:
I. It may be costly to implement in smaller firms.
II. Difficulty comparing performance with qualitative standards like team spirit.
III. Extreme over-dependence on controls leads to perfect supervision.
IV. Operations may slow down if rules are implemented rigidly.
V. External factors like competition cannot be fully controlled.
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV
(B) I, II, IV, and V
(C) I, III, IV, and V
(D) II, III, IV, and V

Oct/Nov 2015

71. Read the following scenario and answer the question that follows.
To prevent unauthorized access to the bank's core banking application, employees must identify themselves to establish they have the requisite authority before accessing the system login page, similar to scanning a plastic coin to enter a metro train.
Which IT financial control technique does this illustrate?
(A) Authorization
(B) Delegation of financial powers
(C) Budgetary Control
(D) Segregation of Duties

May/June 2007

72. Consider the following COBIT major domains:
I. Planning and organising
II. Acquiring and implementing
III. Delivering and supporting
IV. Monitoring and evaluating
Which of the above statement(s) is/are correct?
(A) I and II
(B) I, II, and III
(C) II, III, and IV
(D) I, II, III, and IV

Oct/Nov 2013

73. The following questions consist of two statements—Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.
Assertion (A): A Management Information System (MIS) aids managers in making sound decisions by providing necessary data whenever required.
Reason (R): MIS helps manage a massive quantity of data and delivers reliable information at precisely the right moment.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2008

74. The following questions consist of two statements—Assertion (A) and Reason (R).

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List I: (IT Application Controls)
P. Validity checks
Q. Identification
R. Input controls
S. Processing controls
List II: (Definitions)
1. Guarantee data integrity of information fed from upstream sources
2. Ensure data is correct mathematically and scientifically based on inputs/outputs
3. Ensure only valid data is input or processed, looking for errors
4. Make sure every user can be definitively pinned down as who they are
(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-1, R-2, S-3
(C) P-1, Q-2, R-3, S-4
(D) P-2, Q-3, R-4, S-1

Oct/Nov 2025

51. Consider the following statements about Financial Statement and Ratio Analysis:
I. It is useful for attracting investors and enhancing the company's reputation.
II. It examines differences and similarities in wealth between two eras and companies.
III. Solvency and Turnover ratios are frequently used in this process.
Which of the above statement(s) is/are correct?
(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

May/June 2019

52. Consider the following steps in the fundamental control process:
I. Taking steps to make necessary corrections
II. The process of establishing goals and standards
III. Continuing to monitor the effects of corrective actions
IV. Comparing the actual performance to the predetermined goals and criteria
Which of the following represents the correct chronological order of these steps?
(A) II, IV, I, III
(B) I, II, IV, III
(C) II, I, IV, III
(D) IV, II, I, III

Oct/Nov 2007

53. Match the Traditional Control Techniques in List I with their core components in List II.
List I: (Traditional Control Techniques)
P. Personal Observation
Q. Break-even Analysis
R. Statistical Reports
S. Budgetary Control
List II: (Core Components)
1. Margin of Safety and Angle of Incidence
2. Direct observation motivating highest productivity
3. Cash, Sales, and Material allocations
4. Averages, Percentages, and Ratios
(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2017

54. Consider the following statements regarding the relationship between planning and control:
I. While planning is considered thinking, controlling is considered an executive function.
II. Planning can be successful without controlling as long as the plans are imaginative and innovative.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2016

55. Which of the following pairs correctly matches the control technique with its category?
(A) Return on Investment — Modern Technique
(B) PERT & CPM — Traditional Technique
(C) Budgetary Control — Modern Technique
(D) Financial Statement Analysis — Traditional Technique

May/June 2022

56. Personal Observation is a traditional control approach. What is considered its most appropriate advantage?
(A) It allows the acquisition of genuine, first-hand information for analysis.
(B) It requires a negligible amount of time for supervision.
(C) It isolates employees from managers,

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of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2021

80. The following questions consist of two statements—Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.
Assertion (A): Planning is considered the foundation for control.
Reason (R): Planning provides the entire spectrum on which control functions are based, establishing objectives and targets during the initial phase.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2010

81. Read the following scenario and answer the question that follows.
A bank installs significant amounts of hardware and software and appoints human resources to manage it. The bank wants to establish coordination between the systems and human resources by fixing the responsibilities of every employee regarding who will monitor website safety and secure data.
Which specific IT control technique is the bank implementing?
(A) Logical Access Controls Techniques
(B) Physical Access Controls Techniques
(C) Organisational Controls Techniques
(D) BCP Controls Techniques

May/June 2014

82. Consider the following statements regarding characteristics of controlling:
I. Makes the most efficient use of available resources.
II. Motivates employees and boosts employee morale.
III. Evaluates standards solely in non-monetary terms.
IV. Improves the results of an organisation as a whole.
V. Ensures correct application of the standard.
Which of the above statement(s) is/are correct?
(A) I, II, III, and V
(B) I, II, IV, and V
(C) II, III, IV, and V
(D) I, III, IV, and V

Oct/Nov 2005

83. The following questions consist of two statements—Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.
Assertion (A): Controlling is the last function of the management process.
Reason (R): Within an organisation, the controlling process is implemented to check whether or not certain criteria are being met by gathering information.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2016

84. Read the following scenario and answer the question that follows.
To avoid such surprises in the next quarter, the branch manager implements a system that anticipates potential taxation shifts well in advance and adjusts the sales strategies accordingly before the quarter even begins.
What type of control does this represent?
(A) Concurrent control
(B) Feedback control
(C) Proactive control
(D) Budgetary control

May/June 2013

85. The following questions consist of two statements—Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.
Assertion (A): Return on Investment (ROI) helps evaluate a company's current financial situation by measuring the return generated from committed capital.
Reason (R): ROI can only be increased by lowering total investment; increasing sales

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(A) COSO
(B) COBIT
(C) PERT
(D) Du-Pont Framework

NODIA

May/June 2020

99. Read the following scenario and answer the question that follows.
While managing the software launch, the project manager identifies the longest sequence of activities that must be finished on time for the entire project to be complete, determining scheduling flexibilities.
Which concept is being applied here?
(A) Management Information System (MIS)
(B) System Development Life Cycle (SDLC)
(C) Return on Investment (ROI)
(D) Critical path method (CPM)

Oct/Nov 2021

100. Read the following scenario and answer the question that follows.
Under the responsibility accounting method in the conglomerate, the CEO classifies the distinct departments. Which of the following is an accurate classification of a responsibility center that could be established?
(A) Liquidity Centre
(B) Profitability Centre
(C) Turnover Centre
(D) Investment Centre

(D) Manufacturing and packaging

Oct/Nov 2017

92. Read the following scenario and answer the question that follows.
An IT company is launching a new software product. The project manager wants to represent all activities in their appropriate sequence and timing to organize and integrate tasks effectively.
Which control technique should the project manager employ?
(A) Responsibility Accounting
(B) Break-even Analysis
(C) PERT
(D) Statistical Reports

May/June 2024

93. Read the following scenario and answer the question that follows.
To lower the probability of mistakes when making high-value journal entries, the bank institutes a rule where one employee inputs the entry and a second employee verifies and approves it.
What is this specific control called?
(A) Cancellation of documents
(B) Input and output verification
(C) Safekeeping
(D) Dual control

Oct/Nov 2025

94. Read the following scenario and answer the question that follows.
A large conglomerate operates multiple departments. The CEO decides to implement a method of accounting that places responsibility on individual employees and assesses whether they carry it out according to established criteria.
This approach is known as:
(A) Budgetary Control
(B) Management Audit
(C) Responsibility Accounting
(D) Break-even Analysis

May/June 2008

95. Read the following scenario and answer the question that follows.
The project manager knows that the effective completion of the project is the primary focus, but what two major constraints must the execution remain within?
Which of the following correctly identifies these constraints?
(A) The allotted amount of time and the predetermined cost
(B) Employee morale and job satisfaction
(C) Profit centre margins and revenue centre targets
(D) Government policies and consumer behavior

Oct/Nov 2016

96. Read the following scenario and answer the question that follows.
The bank's Chief Information Officer (CIO) enforces transaction processing controls that are fully automated to ensure records are complete, valid, and authentic from input to output.
These specific controls fall under which broad category?
(A) IT general controls (ITGC) which manage the environment of the software system.
(B) Automated system controls ensuring data is processed correctly from input to output.
(C) Physical Access Controls designed to stop unauthorized personnel from entering server rooms.
(D) Management Audit controls that examine how the company utilizes its financial resources.

May/June 2005

97. Read the following scenario and answer the question that follows.
The organization also decides to mentally represent their internal control components as horizontal layers of a three-dimensional cube, incorporating risk assessment, control activities, and monitoring.
Which internal control framework aligns with this description?
(A) COSO
(B) ITGC
(C) SDLC
(D) CPM

Oct/Nov 2006

98. Read the following scenario and answer the question that follows.
A newly appointed Chief Information Security Officer (CISO) decides to adopt a framework developed by the IT Governance Institute to combine various governance components into optimal management objectives.
Which framework is the CISO adopting?

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over all phases of a transaction.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2019

63. Consider the following factors that managers consider when choosing an appropriate method of control:
I. Geographical scope of activities
II. The accessibility of methods and their ability to meet requirements
III. Patterns seen in industry
IV. The overarching management philosophy of a more senior level
Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) II, III, and IV
(C) I, III, and IV
(D) I, II, III, and IV

May/June 2024

64. Read the following scenario and answer the question that follows.
The manufacturing firm's production department starts a new phase. Management establishes criteria by subdividing the overarching goals into those of the production and material departments. They estimate the amount of resources and labour required and compare actual performance to previously defined standards.
Which specific control technique is being executed?
(A) Financial Statement Analysis
(B) Management Audit
(C) Budgetary Control
(D) System Development Life Cycle

Oct/Nov 2009

65. The following questions consist of two statements—Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.
Assertion (A): The process of controlling employees always reduces employee morale and leads to decreased effort.
Reason (R): Discipline and order are established as a result of the controlling process.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2015

66. Read the following scenario and answer the question that follows.
The retail chain's CFO wishes to increase the Return on Investment (ROI) without increasing the total investment.
According to the ROI method, what is a valid way to achieve this?
(A) Increasing sales volume proportionally more than the total capital investment.
(B) drasically lowering the volume of sales to minimize associated variable costs.
(C) Increasing fixed costs while decreasing variable costs to maintain profit margins.
(D) Abandoning the Du-Pont method and switching entirely to Personal Observation techniques.

Oct/Nov 2020

67. Consider the following statements regarding procedures in the fundamental control process:
I. Establishing goals and standards
II. Comparing actual performance to predetermined goals
III. Taking steps to make necessary corrections
IV. Ignoring the effects of corrective actions once implemented
Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, III, and IV

May/June 2010

68. The following questions consist of two statements—Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.
Assertion (A): Personal observation is often criticized because it allows managers to make adjustments there and then.
Reason (R): One of the advantages of utilizing

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ANSWERS

1. (B) Three
Timing-based control classification divides management strategies into three distinct categories. Proactive control focuses on anticipating potential issues before they occur. Concurrent control involves real-time monitoring and adjustments during the activity. Feedback control evaluates outcomes after completion to guide future actions. These three stages ensure a comprehensive approach to maintaining organizational standards and performance.

2. (C) They are automated system checks ensuring data is processed correctly from input to output.
IT application controls are specific automated mechanisms integrated within software to maintain data integrity. They function by verifying that information remains accurate, complete, and valid throughout the processing cycle. These system-level checks monitor data from the initial input phase through processing to final output, preventing errors and ensuring that the application meets business requirements reliably.

3. (C) The profit made from capital that has been invested, also known as the Du-Pont Method.
Return on Investment serves as a critical financial metric for evaluating organizational efficiency. This technique measures the profitability derived from invested capital. Often associated with the Du-Pont Method, it analyzes how effectively a company generates income relative to its assets. Managers use this modern control tool to compare performance across different divisions and make informed investment decisions.

4. (C) Loss Centre
Responsibility accounting organizes an institution into specific centers based on accountability. Standard classifications include cost centers, revenue centers, profit centers, and investment centers. A cost center manages expenses, while revenue centers track sales. Profit centers evaluate both, and investment centers focus on capital returns. However, a loss center is not recognized as a formal category in this framework.

5. (B) It moulds the company's culture towards compliance and proper governance.
Establishing the tone at the top is a fundamental aspect of IT general controls. When leadership prioritizes ethical behavior and regulatory adherence, it shapes the overall organizational culture. This commitment fosters an environment where compliance and robust governance are valued by all employees. Consequently, it strengthens the effectiveness of internal controls and promotes the security of information technology resources.

6. (B) PERT & CPM
Management control techniques are categorized into traditional and modern methods. Traditional techniques, used for many years, include personal observation, break-even analysis, and budgetary control. These focus on immediate oversight and historical data. Conversely, PERT and CPM are considered modern techniques. They provide sophisticated scheduling and network analysis for complex projects, representing a shift toward more advanced project management methodologies.

7. (B) A method of gathering information to check if specific criteria are met for making informed decisions.
The controlling process is an essential management function designed to ensure organizational alignment. It involves systematically collecting data to determine if performance matches predetermined standards. By evaluating this information, managers can identify discrepancies and make necessary adjustments. This ongoing cycle of monitoring and decision-making helps the organization stay on track toward achieving its long-term goals and operational efficiency.

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8. (B) The exercise of control reduces the number of errors that occur within the organisation.
Effective controlling serves several vital functions within an organization. By setting standards and measuring performance, managers can detect deviations early. This proactive approach significantly minimizes the occurrence of errors and fraud. Rather than lowering morale, clear control mechanisms provide guidance and improve discipline. Ultimately, control ensures that resources are used efficiently and that the company remains on its planned course.

9. (B) Tangible goals are those which cannot be easily quantified in terms of numbers.
The control process relies on the establishment of clear, measurable standards. Tangible goals are specifically defined by their ability to be quantified using numerical data, such as sales figures or production units. Goals that cannot be easily measured in numbers are actually referred to as intangible or qualitative standards. Accurate measurement of actual performance is essential before comparing results to these benchmarks.

10. (C) The Du-Pont Method
Return on Investment is a modern control technique widely used in financial analysis to assess profitability. It is frequently called the Du-Pont Method, which breaks down the components of return into profit margins and asset turnover. This approach provides a comprehensive view of how effectively a business utilizes its invested capital to generate net income, assisting managers in evaluation.

11. (D) Authorising and dispensing
COBIT is a comprehensive framework for information technology governance organized into four major domains. These domains are planning and organizing, acquiring and implementing, delivering and supporting, and monitoring and evaluating. Each domain focuses on specific aspects of IT management to ensure alignment with business objectives. Authorizing and dispensing is not a recognized domain within the standard COBIT architectural structure for governance.

12. (C) A system providing reliable information for sound decisions and managing large data quantities.
A Management Information System is a technology-based framework designed to support organizational decision-making. It processes vast amounts of data into meaningful information for managers. By providing timely and reliable reports, MIS allows leaders to monitor performance and adjust strategies effectively. This system bridges the gap between raw data collection and strategic management, ensuring that resources are utilized to meet objectives.

13. (A) It plans operations and compares that planning to actual performance results.
Budgetary control is a traditional management technique involving the creation of detailed financial plans. It functions by subdividing organizational goals into departmental targets and estimating required resources. Managers then compare actual results against these budgeted figures to identify deviations. This process facilitates coordination and allows for corrective action, though budgets may not always be perfectly accurate or entirely free of costs.

14. (C) Proactive control anticipates problems early, whereas concurrent control acts during the activity.
Control strategies vary based on the timing of implementation. Proactive control is future-directed, aiming to anticipate and prevent potential issues before they manifest. In contrast, concurrent control occurs in real-time, involving active monitoring and intervention while a task is being performed. Both methods aim to minimize deviations from standards, but they differ fundamentally in when the manager intervenes during the workflow.

15. (D) It fails to provide feedback for data improvement in future planning.
Controlling has several inherent limitations, such as difficulty in measuring qualitative standards like team spirit. It can also be costly and may face resistance from employees who feel restricted. However, providing feedback for future planning is actually a significant advantage of control, not a limitation. By analyzing past performance and deviations, control informs and improves future planning efforts.

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16. (A) The point where total sales revenue is equal to total costs (fixed and variable).
Break-even analysis is a traditional control technique used to determine the minimum production level required for viability. The break-even point occurs when total sales revenue exactly covers all fixed and variable costs. At this specific level, the organization generates zero profit and incurs zero loss. It serves as a vital benchmark for managers to evaluate the impact of volume on profitability.

17. (A) ROI can be increased by raising the total investment while lowering the overall sales volume.
Return on Investment measures the efficiency of capital usage by comparing net income to total investment. To increase ROI, an organization typically needs to improve profit margins or increase sales volume relative to the capital invested. Raising total investment while simultaneously lowering sales volume would logically decrease the return, making the statement incorrect. Calculation involves net income, sales, and total investment figures.

18. (A) Coefficient of determination
Break-even analysis utilizes several key indicators to evaluate financial health. Common metrics include the contribution margin, which is the difference between sales and variable costs, and the margin of safety, representing sales above the break-even point. The angle of incidence also illustrates profit potential. The coefficient of determination is a statistical measure of correlation and is not a component of break-even analysis.

19. (D) COBIT provides design considerations for governance systems matching organisational needs.
The COBIT framework is designed to provide comprehensive guidance for the governance and management of enterprise information technology. It assists organizations in creating a governance system that aligns with their specific needs and objectives. Developed by ISACA, it integrates various governance components into a structured approach. It is not exclusively focused on financial delegations or developed by the Committee of Sponsoring Organizations.

20. (A) To ensure the standardisation of the system development life cycle.
System Development Life Cycle controls are implemented within IT environments to manage the creation and maintenance of software applications. Their primary purpose is to ensure that development processes are standardized, documented, and consistently followed. By providing a structured framework, these controls help organizations produce reliable, high-quality systems that meet user requirements while minimizing risks associated with software changes and deployment.

21. (C) Statistical Reports
Management control techniques are divided into traditional and modern categories. Modern techniques include Return on Investment, Management Audit, and Responsibility Accounting, which offer sophisticated data analysis. Statistical reports, however, are classified as a traditional technique. These reports utilize averages, percentages, and ratios to present data about past performance, helping managers observe trends and identify areas requiring attention through historical comparison.

22. (B) Controlling
Management is a process consisting of several interconnected functions. It begins with planning and proceeds through organizing, staffing, and directing. Controlling is considered the final function because it evaluates the results of all previous activities. It ensures that the organization is moving toward its goals and provides the necessary feedback to restart the management cycle with improved planning and execution.

23. (D) Because controlling measures performance against standards to analyse deviations and take action.
Planning and controlling are inseparable functions of management. Planning establishes the goals and standards that serve as benchmarks for success. Controlling then monitors actual performance against these established criteria to identify and analyze any deviations. Without the standards provided by the planning process, the controlling function would have no basis for measurement or corrective action, making it essentially impossible to execute.

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24. (D) Planning and control are backward-looking where the past is the only thing strictly controlled.
Planning and control have a dynamic relationship that involves both looking forward and looking backward. While control analyzes past performance to identify deviations, its ultimate purpose is forward-looking: to guide future actions and planning. Similarly, planning looks forward to set goals but relies on past data provided by control. Describing them as strictly backward-looking is incorrect, as both functions aim for future success.

25. (B) It provides feedback for data improvement for future planning.
One of the most significant benefits of the controlling function is its role in continuous improvement. By measuring deviations from standards and analyzing the causes, control provides valuable feedback to management. This information is used to refine goals and improve the accuracy of data in subsequent planning cycles. This iterative process ensures that the organization learns from experience and enhances its efficiency.

26. (D) A scheduling technique used to identify necessary tasks and determine scheduling flexibilities.
The Critical Path Method is a modern project management technique used for planning and scheduling complex sets of activities. It involves identifying every task required for project completion and determining their sequential dependencies. By calculating the longest path of planned activities to the end of the project, CPM helps managers understand which tasks are critical and where scheduling flexibility or slack exists.

27. (A) Eliminates the influence of government policies and competition
Controlling offers numerous organizational benefits, including goal achievement, validating the accuracy of standards, and simplifying supervision. It helps maintain discipline and minimizes errors. However, controlling cannot eliminate external environmental factors such as government policies, economic shifts, or competition. These remain largely outside the organization's direct influence, though effective control systems help the management team adapt and respond to such external pressures.

28. (C) Five
The Committee of Sponsoring Organizations of the Treadway Commission developed a widely recognized framework for internal control. This framework identifies five essential components: the control environment, risk assessment, control activities, information and communication, and monitoring. Together, these components provide a comprehensive structure for organizations to manage risks and ensure the achievement of their operational, reporting, and compliance objectives.

29. (C) Employees always welcome controlling as a way to enhance their freedom and autonomy.
Controlling faces several practical challenges, including the high cost of implementation and a lack of influence over external variables. A common human limitation is employee resistance; many workers perceive strict control mechanisms as a restriction on their professional freedom and autonomy rather than a welcome addition. This resistance can lead to decreased morale if not managed with transparent communication and support.

30. (D) Planning is a thinking process, while controlling ensures decisions translate into desired actions.
Planning and controlling represent different stages of the management cycle. Planning is primarily an intellectual thinking process where objectives are established and strategies are formulated. In contrast, controlling is an executive function focused on ensuring that those plans are carried out effectively. It monitors progress and takes corrective actions to ensure that the initial decisions translate into the desired organizational outcomes.

31. (C) II, III, I
The budgeting process follows a logical sequence to ensure effective oversight. It begins with subdividing overarching corporate goals into specific departmental targets. Once operations are underway, the next step is comparing actual performance data against these budgeted standards. Finally, managers analyze any deviations discovered during the comparison

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and implement corrective actions to align future performance with the original plan or revised goals.

32. (B) Intangible Motivation Budget — Prepared by organisations
Organizations prepare various types of budgets to manage resources effectively. Common examples include sales budgets, material budgets, capital budgets, and cash budgets. These focus on quantifiable resources and financial targets. An intangible motivation budget is not a standard tool in budgetary control, as motivation and morale are qualitative factors that are difficult to quantify in a formal financial budgeting framework.

33. (B) The highest possible output at the lowest possible cost.
Planning and controlling work in tandem to optimize organizational performance. Planning sets the stage by defining efficient processes and targets, while controlling ensures these plans are executed with minimal waste. The ultimate objective of this combined effort is to achieve maximum productivity and output while keeping costs as low as possible. This synergy drives the overall profitability and sustainability of the modern business enterprise.

34. (A) Only I
IT general controls encompass broad areas like disaster recovery, physical security, and logical access to protect the overall system environment. These are correctly described in the first statement. The second statement is incorrect because IT application controls, such as validity and completeness checks, are typically automated system functions rather than manual tasks performed by external auditors during the regular processing of data.

35. (A) P-2, Q-1, R-4, S-3
Modern control techniques address various management needs. Return on Investment is identified with the Du-Pont Method. Responsibility Accounting categorizes the organization into specific centers like revenue and cost. PERT and CPM are scheduling techniques used to determine task flexibility and critical paths. Finally, Management Information Systems focus on the systematic collection and management of data to support informed decision-making across the entire organization.

36. (B) II and III
Break-even analysis evaluates the relationship between costs, volume, and profit. The formula for the break-even point is correctly identified as fixed costs divided by the difference between price and variable cost. Evaluation metrics include the contribution margin and the margin of safety. The first statement is incorrect because total cost must include both fixed and variable costs to determine the break-even point.

37. (A) To verify if plans work as intended and prepare to take necessary corrective actions.
Continuous assessment of actual performance against predetermined goals is vital for effective management. This process allows managers to verify whether the initial plans are producing the desired results. When deviations occur, it provides the necessary information to take corrective actions. This ensures that the organization remains on course and adapts to changes, rather than relying on delegating all future issues away.

38. (A) P-4, Q-2, R-3, S-1
The IT governance landscape involves various roles and frameworks. An ITGC Council serves as a primary pillar for system reliability. The CIO or CISO is the individual accountable for the safety and accuracy of systems. COBIT provides design considerations for governance systems. COSO identifies the five key components of internal control, providing a structured approach to managing organizational risk and compliance.

39. (B) Only II
Controlling has several limitations, including the lack of influence over external factors like government policies and technological changes, which makes the first statement incorrect. The second statement accurately reflects a human limitation: resistance from employees. Workers often perceive control mechanisms as a restriction on their professional freedom, which can lead to friction and necessitates careful management of the organizational culture.

40. (B) P-3, Q-2, R-1, S-4
Control types are distinguished by their timing relative to the activity. Feedback control

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73. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
A Management Information System is specifically designed to provide managers with reliable and timely data for decision-making. By organizing large volumes of information into usable reports, MIS helps leaders understand operational performance and strategic position. The reason correctly explains the assertion: the system's ability to manage massive data quantities and deliver it when needed is what makes it an invaluable aid for sound management decisions.

74. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
It is indeed difficult to measure performance against qualitative standards like team spirit or job satisfaction. These concepts lack concrete, numerical values, making them subjective and complex to evaluate compared to financial targets. The reason correctly explains that the difficulty arises because these standards are not expressed in quantitative terms, which is the primary barrier to precise measurement in the control process.

75. (D) (Net Income / Sales) × (Sales / Total Investment)
The Du-Pont Method calculates Return on Investment by breaking it down into two components: profit margin and investment turnover. The formula is (Net Income divided by Sales) multiplied by (Sales divided by Total Investment). This approach allows managers to see whether a change in ROI is driven by improved profitability per sale or by more efficient use of assets to generate sales.

76. (B) I, II, and IV
Planning is the initial management function, and controlling is the final evaluative function. The control process provides information that improves future planning, and effective controls help ensure the long-term sustainability of those plans. The third statement is incorrect because while both functions use past data, their focus is on guiding future performance, not just "changing previous actions" that have already occurred.

77. (D) Break-even Analysis
The finance manager in the scenario is looking for the production volume where total revenue equals total costs, resulting in neither profit nor loss. This is the definition of the break-even point. Break-even analysis is the traditional control technique specifically designed to help managers understand the relationship between fixed costs, variable costs, and sales volume in determining organizational viability.

78. (B) I, II, IV, and V
Controlling limitations include high costs for small businesses, difficulty measuring qualitative factors, potential operational slowdowns due to rigidity, and lack of control over external environmental factors like competition. The third statement is excluded because over-dependence on controls typically leads to a false sense of security or laxity in management oversight, rather than achieving a state of "perfect" supervision.

79. (D) Assertion (A) is false, but Reason (R) is true.
The assertion is false because application controls are focused on internal data processing within software, not on physical access to data centers (which is the role of physical access controls). However, the reason is true: IT application controls are automated checks that ensure data is processed correctly and completely from input to output. Thus, the assertion incorrectly defines the scope of these controls.

80. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Planning is the essential foundation for the controlling function. It establishes the objectives, targets, and standards that managers use to measure success. Without these benchmarks provided by the planning phase, the controlling process would have no criteria to compare actual performance against. Therefore, planning provides the necessary framework and spectrum upon which all subsequent control activities are based and evaluated.

81. (C) Organisational Controls Techniques
The bank is establishing coordination between hardware, software, and staff by defining specific responsibilities for each employee. This process of fixing responsibilities and defining roles within

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Ensuring the correct application of standards maintains operational quality. Finally, exercising control throughout the organization reduces the frequency of errors. These relationships highlight how the various facets of the controlling function contribute to overall organizational health and efficiency.

49. (A) Cancellation of documents — Reusing cancelled invoices frequently for new transactions
Control techniques are designed to prevent fraud and errors. Safekeeping involves securing sensitive information like passwords. Data processing environment controls ensure hardware is monitored by specialists. Input/output verification checks records for accuracy. However, the cancellation of documents is meant to prevent the reuse of transaction records; therefore, reusing cancelled invoices would be a failure of control rather than a correct application.

50. (A) P-3, Q-4, R-1, S-2
Application controls ensure data integrity during specific processes. Validity checks look for errors to ensure only valid data is processed. Identification confirms a user's identity. Input controls guarantee the integrity of data coming from upstream sources. Processing controls ensure that the internal logic of the system processes data correctly from start to finish. Together, these automated checks protect the accuracy and reliability of business applications.

51. (D) I, II, and III
Financial statement and ratio analysis is a vital tool for evaluating a company's health. It involves examining financial data across different periods or comparing it with other companies. Key ratios, such as solvency and turnover, provide insights into liquidity and efficiency. This process enhances the company's reputation and attracts investors by demonstrating transparency and financial stability. All the provided statements correctly describe this modern control technique.

52. (A) II, IV, I, III
The fundamental control process follows a logical cycle. It begins with establishing goals and standards as benchmarks. Next, actual performance is measured and compared to these predetermined criteria. If discrepancies exist, managers take steps to make necessary corrections. Finally, the process continues by monitoring the effects of those corrective actions to ensure they successfully addressed the identified deviations and improved performance.

53. (A) P-2, Q-1, R-4, S-3
Traditional control methods utilize specific components for evaluation. Personal observation involves direct oversight to motivate productivity. Break-even analysis focuses on the margin of safety and the angle of incidence. Statistical reports summarize data using averages, percentages, and ratios. Budgetary control manages the allocation of cash, sales, and materials. These techniques have been the backbone of management oversight for decades, providing essential operational insights.

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54. (A) Only I
Planning and control are complementary functions. Planning is often described as the thinking and prescriptive stage, while controlling is the executive and evaluative stage. This distinction is correctly captured in the first statement. The second statement is incorrect because planning cannot be truly successful without controlling; without monitoring progress, there is no way to ensure that imaginative plans are actually being achieved.

55. (A) Return on Investment — Modern Technique
Control techniques are categorized based on their complexity and historical usage. Return on Investment, Management Audit, and Responsibility Accounting are considered modern techniques because they offer deeper analytical insights. Budgetary control and personal observation are traditional techniques. PERT and CPM are also modern project management tools. Therefore, identifying ROI as a modern technique is the only correctly matched pair in the provided options.

56. (A) It allows the acquisition of genuine, first-hand information for analysis.
Personal observation is a traditional control technique where managers directly oversee work. Its primary advantage is providing first-hand, unfiltered information about operations and employee performance. This direct contact allows managers to identify issues as they happen and understand the context of the work.

involves taking corrective action after the event. Proactive control is future-directed and anticipates problems in advance. Concurrent control happens in real-time as the activity is carried out. The concept of "no control" is often associated with the influence of external factors like consumer behavior, which are outside direct management.

41. (A) I and II
Financial controls in IT include the delegation of powers, which involves specific instructions for sub-delegating authority. Budgetary control identifies variances between planned spending and actual results. Both are correctly described. The third statement is incorrect because dual control is intended to reduce errors by requiring two people to verify a transaction, not to increase mistakes by causing confusion between employees.

42. (C) To examine resource usage to guarantee that management is performing effectively.
A Management Audit is a modern control technique that involves a comprehensive and constructive examination of an organization's management structure and resource usage. Its primary goal is to evaluate the overall efficiency and effectiveness of the management team. Unlike financial audits, it focuses on identifying weaknesses in management performance and recommending improvements to enhance the future success and stability of the entire enterprise.

43. (B) Authentication — Offers a method for user authentication within the application system.
Application controls are designed to ensure the integrity of specific business processes. Authentication is a critical control that verifies the identity of a user before granting access to the system. While completeness checks ensure all data is processed, and input controls verify the accuracy of data entry, authentication specifically addresses the "who" of system access, ensuring only authorized individuals can interact with the application.

44. (A) P-4, Q-3, R-2, S-1
Financial control techniques serve distinct purposes in IT management. Delegation of powers involves instructions on sub-delegating authority. Authorization requires users to verify their identity. Budgetary control establishes financial ceilings and time limits. Dual control uses a "four-eyes" principle where two employees check an entry for accuracy. These techniques collectively ensure that financial transactions are authorized, recorded accurately, and remain within established budgetary constraints.

45. (A) I and II
Controlling provides several benefits, including the minimization of errors and the validation of performance standards. These aspects help ensure organizational accuracy and goal alignment. While controlling can facilitate decentralization by simplifying supervision through standard benchmarks, the third statement is slightly misleading as its primary effect is simplifying the supervisory process itself. Therefore, the first two statements represent the most fundamental and direct advantages.

46. (B) A difficult task compared to measuring concrete monetary results.
A significant challenge in the control process is the measurement of qualitative or intangible standards. Factors such as employee morale, market reputation, and industrial relations cannot be easily expressed in numerical or monetary terms. Consequently, comparing actual performance against these abstract benchmarks is much more difficult and complex for managers than tracking concrete data like sales revenue or production volume.

47. (A) Only I
PERT is a scheduling technique used to organize and integrate tasks in complex projects, as correctly stated. While the description of CPM identifying necessary tasks and scheduling flexibility is generally accurate in practice, within the specific context of these management definitions, the first statement about PERT is the primary focus. CPM specifically emphasizes the critical path of activities that determines the overall duration of the project launch.

48. (A) P-3, Q-2, R-4, S-1
Controlling characteristics lead to specific outcomes. Reevaluating standards ensures future planning is accurate. Controlling employees helps motivate them by providing clear expectations.

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efforts and monitor financial and operational performance against a structured plan, ensuring that the manufacturing firm uses its resources efficiently to meet goals.

65. (D) Assertion (A) is false, but Reason (R) is true.
The assertion that controlling always reduces morale and effort is false. While some employees may resist control, effective control systems actually provide clarity and boost morale by establishing fair standards and discipline. The reason is true because the controlling process does establish order and discipline within the organization. Therefore, the assertion is incorrect, but the stated outcome of the controlling process is a factual characteristic.

66. (A) Increasing sales volume proportionally more than the total capital investment.
According to the Du-Pont Method, Return on Investment is a product of profit margin and asset turnover. To increase ROI without increasing total investment, an organization can focus on driving higher sales volume from its existing assets. If sales increase proportionally more than the capital committed, the asset turnover ratio improves, leading to a higher overall return for the retail chain.

67. (A) I, II, and III
The fundamental control process consists of several positive steps: establishing goals, comparing actual performance to those goals, and taking corrective actions. These steps are essential for maintaining organizational alignment. The fourth statement is incorrect because ignoring the effects of corrective actions would be counterproductive; management must monitor these effects to ensure the adjustments are working as intended and that performance has improved.

68. (D) Assertion (A) is false, but Reason (R) is true.
The assertion is false because being able to make adjustments "there and then" is typically considered a significant advantage of personal observation, not a point of criticism. It allows for immediate correction. The reason is true as personal observation provides managers with genuine, first-hand information that secondary reports might miss. Thus, while the reason is a valid benefit, the assertion incorrectly labels a benefit as a criticism.

69. (A) Lack of control over external factors like government policy or consumer behavior.
In the scenario, the sales team failed to meet its target due to changes in taxation policies and consumer behavior. This highlights a major limitation of the controlling function: management has little to no control over external environmental variables. Even with perfect internal controls, external shifts in the economy, law, or social trends can significantly disrupt an organization's ability to achieve planned outcomes.

70. (B) I, II, IV, and V
Controlling limitations include high costs for small businesses, difficulty measuring qualitative factors, potential operational slowdowns due to rigidity, and lack of control over external environmental factors like competition. The third statement is excluded because over-dependence on controls typically leads to a false sense of security or laxity in management oversight, rather than achieving a state of "perfect" supervision.

71. (A) Authorization
The scenario depicts employees identifying themselves to prove they have the necessary rights to access a system. This is a classic example of authorization. In IT financial controls, authorization ensures that only individuals with the correct credentials and permissions can perform specific actions or access sensitive data, much like a metro coin grants entry only to those with a valid fare.

72. (D) I, II, III, and IV
COBIT organizes IT governance into four high-level domains: Planning and Organising, Acquiring and Implementing, Delivering and Supporting, and Monitoring and Evaluating. These domains encompass the entire lifecycle of IT services and management. Every statement in the list correctly identifies one of these four essential pillars of the COBIT framework for enterprise IT governance.

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While it can be time-consuming, the quality of information gathered is superior to relying solely on secondary reports.

57. (A) I and II
Controlling is a positive management function that assists in achieving organizational goals and establishing order and discipline. These characteristics help the organization operate smoothly and effectively. The third statement is incorrect because the primary purpose of controlling is to ensure the efficient use of resources, not to cause inefficiency. By detecting waste and deviations, control promotes better resource management across the entire enterprise.

58. (A) P-4, Q-2, R-1, S-3
Each step in the control process involves specific management actions. Establishing goals requires clear communication of objectives. Comparing performance involves measuring results, often in monetary terms. Taking corrections focuses on mitigating damage and preventing its recurrence. Monitoring effects requires staying close to the situation to observe the progress made by subordinates. This structured approach ensures that deviations are addressed and that the organization stays on track.

59. (A) Only I
Controlling is defined as the process of gathering information about a system or person to support decision-making. This fundamental concept is correctly stated in the first point. The second statement is incorrect because the controlling function specifically includes making adjustments when deviations are discovered. Simply logging errors without taking corrective action would fail to fulfill the essential purpose of management control.

60. (C) P-2, Q-3, R-4, S-1
IT controls protect organizational assets and data. Job rotation reduces fraud risk by switching employee roles. Physical access controls prevent unauthorized entry into data centers. Logical access controls, like antivirus software, protect against hacking and unauthorized system use. Business Continuity Planning controls ensure that sufficient backups exist to maintain operations. These specific measures address different vulnerabilities within the information technology infrastructure and operational processes.

61. (A) I, II, III, and IV
Controlling offers significant benefits, including goal achievement, error minimization, validation of standards, and simplification of supervision. These advantages contribute to organizational efficiency and reliability. However, the fifth statement is incorrect because no control system can permanently prevent all frauds. While effective controls reduce the likelihood and impact of fraudulent activity, they cannot entirely eliminate the possibility of human circumvention or unforeseen vulnerabilities.

62. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Segregation of duties is a fundamental internal control designed to prevent error and fraud. By dividing critical tasks among different individuals, the organization ensures that no single person has total control over all stages of a transaction. This "checks and balances" approach makes it much harder for fraudulent activity to occur without collusion, thereby reducing risk and enhancing the integrity of IT and financial systems.

63. (D) I, II, III, and IV
Managers consider multiple factors when selecting an appropriate control method. These include the geographical scope of operations, the accessibility and suitability of various techniques, and prevailing industry patterns. Additionally, the overarching philosophy of senior management significantly influences the chosen approach. A comprehensive consideration of all these elements ensures that the implemented control system aligns with the organization's unique needs and strategic environment.

64. (C) Budgetary Control
The scenario describes a process of setting departmental targets, estimating required resources (labor and materials), and comparing actual performance to these predefined standards. These activities are the hallmark of budgetary control. This traditional technique enables managers to coordinate departmental

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the IT structure is a key aspect of organizational control techniques. These controls ensure that the human resources of the bank are organized effectively to maintain the safety, security, and integrity of the overall system.

82. (B) I, II, IV, and V
Controlling makes efficient use of resources, boosts employee morale by providing clear standards, improves overall organizational results, and ensures that standards are correctly applied. These are all positive characteristics of the function. The third statement is incorrect because controlling does not evaluate standards "solely" in non-monetary terms; in fact, many management standards are expressed in monetary or quantitative units.

83. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Both the assertion and the reason are true. Controlling is the final function of the management process, and it involves gathering information to see if criteria are being met. However, the reason is a general definition of the process and does not specifically explain why it is considered the last function. It is the last function because it evaluates the outcomes of all preceding management activities.

84. (C) Proactive control
The manager is implementing a system that anticipates potential taxation shifts and adjusts strategies before the next quarter begins. This forward-looking approach, aimed at preventing problems before they occur by identifying future trends, is the definition of proactive control. Unlike concurrent control (real-time) or feedback control (after the fact), proactive control focuses on future-directed actions to maintain alignment.

85. (C) Assertion (A) is true, but Reason (R) is false.
Return on Investment is a valuable tool for measuring the profitability of committed capital, so the assertion is true. However, the reason is false because ROI can be increased in multiple ways, including increasing sales volume or improving profit margins, not just by lowering investment. In fact, increasing sales volume relative to the investment is a primary driver for improving an organization's ROI.

86. (D) I, II, III, and IV
Organizations utilize several types of budgets to manage different aspects of their operations. A cash budget tracks liquidity, a sales budget forecasts revenue, a capital budget plans for major investments, and a production budget estimates manufacturing requirements. All these are standard, quantifiable tools used in budgetary control to ensure that various departments are aligned with the overall financial and operational goals of the company.

87. (B) The possibility that the final budget turns out to be inaccurate and costly.
Budgetary control, while useful, has recognized weaknesses. One significant characteristic is that the final formulated budget might be inaccurate due to unforeseen changes or errors in estimation. Additionally, the process of developing and monitoring detailed budgets can be costly and time-consuming. The manager in the scenario is correctly identifying these potential pitfalls, which are inherent risks in any budgeting exercise within an organization.

88. (D) I, II, III, IV, and V
The COSO framework outlines five integrated components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. These components work together to provide reasonable assurance regarding the achievement of objectives. Every item listed in the question is a recognized component of this globally accepted framework, ensuring a comprehensive approach to managing internal risks and maintaining organizational integrity.

89. (B) Concurrent control
The manager is engaging in real-time monitoring and intervening while the sales activities are happening. This immediate oversight and active adjustment during the performance of a task is the hallmark of concurrent control. It allows managers to correct problems as they arise, ensuring that the team stays on track toward the target of ₹50 crores rather than waiting for the quarter to end.

90. (D) Assertion (A) is false, but Reason (R) is true.
The assertion is false because taking corrective action while an activity is being carried out

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Oct/Nov 2008

45. Consider the following statements about Equity Capital:
I. It provides the risk capital which otherwise is difficult to source.
II. A higher amount of equity provides a higher level of safety and confidence to the lenders.
III. It involves a compulsory and fixed cost of servicing.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

May/June 2011

46. What is the most appropriate description of "Bridge finance"?
(A) A permanent capital injection intended to buy out the holdings of original promoters
(B) Temporary funding filling the gap between fund need and release by long-term lenders
(C) A structural loan specifically designed for the construction of physical infrastructure
(D) A continuous revolving credit facility used for the purchase of daily raw materials

Oct/Nov 2020

47. Consider the following statements:
I. During a moratorium period on a term loan, accrued interest is completely waived off by the lender.
II. Moratorium is generally granted for principal repayments where projects are large and cash generations take time.
Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2009

48. Match the financial term (List I) with its characteristic (List II):
List I: Financial Term
P. Clean finance
Q. Bridge finance
R. Moratorium
S. WCTL
List II: Characteristic
1. Temporary funding to fill time gap
2. Grace period for principal repayment
3. Loan to mitigate temporary liquidity constraints
4. Costliest finance with no assets to fall upon
(A) P-1, Q-4, R-3, S-2
(B) P-4, Q-1, R-2, S-3
(C) P-4, Q-2, R-1, S-3
(D) P-3, Q-1, R-2, S-4

Oct/Nov 2012

49. Which of the following pairs regarding sources of finance is incorrectly matched?
(A) Preference Capital — Enjoys full voting rights on all company resolutions
(B) Equity Capital — The cost of servicing this capital is not a tax-deductible expense
(C) Internal Accruals — Utilizing this source does not result in any dilution of control
(D) Term Loans — The interest paid on these facilities is a tax-deductible expense

May/June 2025

50. Match the Alternate Financing Strategy (List I) with its attribute (List II):
List I: Alternate Financing Strategy
P. LBO
Q. PIPE
R. Bridge financing
S. FDI in SSI
List II: Attribute
1. Last financing round prior to an IPO
2. Purchase of a company largely financed by debt
3. Subject to a limit of 24% of paid-up capital
4. Investment involving selling publicly traded common shares to private investors
(A) P-4, Q-2, R-3, S-1
(B) P-2, Q-1, R-4, S-3
(C) P-2, Q-4, R-1, S-3
(D) P-1, Q-3, R-2, S-4

Oct/Nov 2005

51. Consider the following statements about Debentures:
I. Debenture holders are allowed proportionate voting rights in some corporate jurisdictions.
II. Debentures are repaid on a fixed date on expiry of the term, known as redemption.
III. Perpetual bonds are permitted to be issued.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only

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information technology resources are managed effectively and securely.

99. (D) Critical path method (CPM)
The project manager is identifying the longest sequence of dependent activities that determines the shortest possible duration for the software launch. This concept is known as the Critical Path Method. By focusing on this critical path, the manager can see which tasks must be completed on time to avoid project delays and identify where scheduling flexibility exists for non-critical tasks.

100. (D) Investment Centre
Under responsibility accounting, an organization is divided into centers based on their financial accountability. Common classifications include cost centers, revenue centers, profit centers, and investment centers. An investment center is a department where the manager is responsible for costs, revenues, and the capital invested. This classification allows the CEO of the conglomerate to evaluate the return generated by specific business units.

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May/June 2012

16. How is "Paid up Share Capital" defined?
(A) The amount of money a company has actually received from shareholders in exchange for shares
(B) The maximum amount of capital a company is authorised to issue
(C) The portion of issued capital applied for and allotted by the company
(D) The part of the subscribed capital that the company has called up from shareholders

Oct/Nov 2015

17. Which of the following statements about internal accruals is incorrect?
(A) Using internal accruals causes a direct dilution of the existing ownership structure
(B) They arise out of cash profits like PAT and non-cash profits like provisions
(C) Retained earnings belong to the equity holders who expect a reasonable return on them
(D) Over-use of retained earnings may hurt the interests of minority shareholders

May/June 2021

18. At what threshold of subscribers is a company required to appoint Trustees for a debenture issue?
(A) More than 50 persons
(B) More than 100 persons
(C) More than 200 persons
(D) More than 500 persons

Oct/Nov 2023

19. Which of the following statements about Foreign Direct Investment (FDI) in India is correct?
(A) Foreign investment is strictly prohibited in all infrastructure sectors
(B) Under the Automatic Route, prior approval from the RBI or Government is mandatory
(C) Foreign investors can acquire up to 100% of the paid-up capital of an Indian SSI unit
(D) Issue of non-convertible preference shares to foreign investors is considered as debt

May/June 2018

20. How does inflation conceptually benefit a borrower repaying a long-term loan over an extended period?
(A) The real value of the currency units paid in the future goes down due to depreciation
(B) The borrower receives a proportionate reduction in the nominal interest rate
(C) The lender is legally obligated to write off a portion of the principal amount
(D) The borrower can switch the loan currency to avoid foreign exchange risks

Oct/Nov 2019

21. Based on the features of preference shares, all of the following are valid drawbacks for the management and equity shareholders, EXCEPT:
(A) Dividend paid is a non-deductible expenditure which increases the real cost of funding
(B) Equity shareholders feel side-lined when payout preference is given to preference shareholders
(C) The absence of any redemption requirement allows the capital to remain indefinitely
(D) Contingency of voting right devolution creates uncertainty in the mind of the management

May/June 2013

22. What is the general and safe norm for the debt-equity ratio?
(A) For every Rs. 100 of equity, one can safely borrow up to Rs. 50
(B) For every Rs. 100 of equity, one can safely borrow up to Rs. 100
(C) For every Rs. 100 of equity, one can safely borrow up to Rs. 200
(D) For every Rs. 100 of equity, one can safely borrow up to Rs. 300

Oct/Nov 2013

23. Why is the cost of equity capital considered to be higher than the cost of a debt facility?
(A) Equity capital involves mandatory monthly repayments of principal regardless of business profitability
(B) Equity shareholders are guaranteed a fixed rate of return that is superior to market interest rates
(C) The issuance of equity capital does not require any payment of brokerage fees or compliance costs
(D) Dividends are not tax-deductible, whereas interest on loans reduces the company's tax liability

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declaration and actual payment of dividends

May/June 2025

8. Which of the following statements correctly describes a feature of Equity Capital?
(A) The holders are entitled to a fixed and guaranteed rate of dividend every year
(B) The holders have rights to residual income and surplus assets during liquidation
(C) The capital must be compulsorily redeemed by the company within a period of 20 years
(D) The holders are given priority over secured creditors during the liquidation of the company

Oct/Nov 2005

9. Which of the following is an incorrect statement regarding the drawbacks of equity capital?
(A) The cost of raising funds through equity involves significant compliance costs
(B) Dividend payments on equity shares result in a reduction of the company's tax liability
(C) Increasing equity capital by inducing the public dilutes ownership control
(D) Equity shareholders expect a higher return than other investors due to higher risk

May/June 2017

10. Under the Foreign Direct Investment (FDI) policy, what is the maximum limit of paid-up capital up to which a foreign investor can invest in an Indian Small Scale Industrial (SSI) unit?
(A) 10%
(B) 24%
(C) 49%
(D) 74%

Oct/Nov 2024

11. Private equity activities categorised into corporate development stages include all of the following, EXCEPT:
(A) First-stage financing for commercialization and production of products
(B) Second-stage financing for working capital funding of young firms
(C) Bridge financing as the last round prior to an initial public offering
(D) Mezzanine-stage financing exclusively for liquidation of obsolete inventory

May/June 2010

12. What does the term "clean finance" signify in lending?
(A) A loan provided exclusively for environmentally friendly and sustainable projects
(B) A term loan granted solely for the acquisition of tangible fixed assets
(C) A financing arrangement where the lender has no assets to fall upon in case of a default
(D) A working capital facility that is fully backed by highly liquid government securities

Oct/Nov 2011

13. Which statement regarding Preference Capital is correct?
(A) Cumulative preference shares accumulate unpaid dividends for payment in subsequent profitable years
(B) Dividends on preference shares are treated as a tax-deductible expense for the company
(C) Preference shares provide absolute voting rights on all company resolutions by default
(D) Companies limited by shares are permitted to issue non-redeemable preference shares

May/June 2024

14. What is the primary purpose of a Working Capital Term Loan (WCTL)?
(A) A facility designed specifically to finance the acquisition of new long-term tangible assets
(B) Temporary funding provided to fill the time gap before long-term lenders release sanctioned funds
(C) A loan meant to resolve temporary liquidity issues when working capital is poorly serviced
(D) A financial mechanism to facilitate the conversion of existing equity capital into debt instruments

Oct/Nov 2006

15. The drawbacks of using internal accruals include all of the following, EXCEPT:
(A) There is a tendency of indiscriminate application of retained earnings
(B) Retained earnings are a deprivation of dividend that may hurt minority shareholders
(C) The company cannot build a good dividend track record to attract investing public
(D) The use of internal accruals triggers a mandatory dilution of management control

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(A) Repayment — Generally over the granted period in instalments or bullet payment
(B) Currency — Loans strictly granted only in INR to eliminate foreign exchange risk
(C) Security — Tangible securities are always preferred and independently valued
(D) Moratorium — Grace period granted for principal repayments

Oct/Nov 2010

33. Which of the following best explains why companies prefer to raise preference capital?
(A) The dividend paid on preference capital is fully tax-deductible for the corporation
(B) The dividend cost is fixed and current owners avoid diluting their equity holding
(C) Preference shareholders take on higher risk than equity holders, demanding lower returns
(D) Preference capital does not form any part of the total net worth of the issuing company

May/June 2006

34. Consider the following statements:
I. Under the Automatic Route for FDI, prior approval from RBI or Government of India is required.
II. Issue of non-convertible preference shares to foreign investors is considered as debt and governed by ECB guidelines.
Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2022

35. Match the Private Equity stages (List I) with their purpose (List II):
List I: Private Equity Stage
P. Seed Financing
Q. Start-up financing
R. First-stage
S. Second-stage
List II: Purpose
1. Product development and initial marketing
2. Commercialization and production
3. Small sums to develop a business idea
4. Working capital for young firms during growth
(A) P-3, Q-1, R-2, S-4
(B) P-1, Q-3, R-4, S-2
(C) P-3, Q-2, R-1, S-4
(D) P-4, Q-1, R-3, S-2

May/June 2016

36. Consider the following statements about Preference Capital:
I. It is a quasi-risk capital because it is not as safe as secured debts.
II. The dividend rate of preference shares fluctuates directly based on the company's daily profits.
III. In the case of banks, perpetual debt instruments can be issued instead of redeemable preference shares.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

Oct/Nov 2016

37. What is the most appropriate reason a bank may convert a portion of a term loan into equity?
(A) When loan quality falls and the borrower cannot pay interest or instalments
(B) When the borrower generates excess cash flows and formally wishes to pre-pay the loan
(C) When the bank seeks to reduce its own corporate tax liability on annual interest income
(D) When the borrower requires a secondary short-term loan for daily working capital needs

May/June 2008

38. Match the regulatory entity or act (List I) with its related aspect (List II):
List I: Regulatory Entity/Act
P. Companies Act, 2013
Q. FEMA 1999
R. SEBI
S. RBI
List II: Related Aspect
1. Governs provisions of foreign investment in India
2. Regulates the entire banking sector and NBFCs
3. Prohibits companies limited by shares from issuing non-redeemable preference shares
4. Guidelines for companies engaged in financial advice including lending in

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May/June 2014

24. Which statement regarding term loans is incorrect?
(A) Moratorium is generally granted for principal repayments, not for interest waivers
(B) Repayments made in foreign currency can result in a higher actual cost of repayment
(C) WCTL is a short term loan provided to mitigate temporary liquidity problems
(D) The interest paid on term loans is not tax-deductible for the borrowing company

Oct/Nov 2009

25. Regarding the types of share capital, which statement is correct?
(A) Subscribed Share Capital can never be less than the total Called-up Share Capital
(B) Issued capital including shares for cash and non-cash considerations
(C) Forfeited Shares are completely extinguished and can never be reissued by the Board
(D) Authorised Capital can be altered by the Board without any reference to the shareholders

May/June 2005

26. How does the Companies Act define a "debenture"?
(A) A financial instrument granting permanent voting rights equivalent to equity shares
(B) A short-term borrowing tool exclusively utilized for financing working capital needs
(C) A permanent source of finance where the repayment of principal is never required
(D) Any company instrument evidencing debt, whether creating a charge on assets or not

Oct/Nov 2017

27. All of the following are advantages of raising funds through equity, EXCEPT:
(A) It creates a fixed and tax-deductible financial burden on the company
(B) There is no compulsory reward, interest, or compensation required to be paid
(C) There is no repayment of the principal amount involved
(D) It provides the risk capital which is otherwise difficult to source

May/June 2007

28. On what date was the Banking Companies Act, 1949 changed to the Banking Regulation Act 1949?
(A) January 1, 1950
(B) March 1, 1966
(C) April 1, 1970
(D) July 19, 1969

Oct/Nov 2018

29. Which of the following statements about financing and financial strategies is incorrect?
(A) Clean finance is the costliest because the lender has no assets to fall upon
(B) Working capital finance is based on the gap between current assets and current liabilities
(C) Bridge finance is a permanent funding solution to eliminate the need for long-term borrowing
(D) Financial strategies aim to maximise advantages and minimise the cost of funds

May/June 2019

30. Why is Private Equity often referred to as "patient capital"?
(A) Funding provided exclusively to healthcare startups and the pharmaceutical industry
(B) A type of investment that requires immediate and guaranteed regular interest payouts
(C) Capital relying on public stock exchanges for instant liquidity and daily trading activities
(D) Capital seeking long-term gains rather than immediate regular repayments

Oct/Nov 2025

31. Arrange the following classifications of share capital in the logical chronological order of their creation and realization:
I. Called-up Share Capital
II. Authorised Capital
III. Paid up Share Capital
IV. Subscribed Share Capital
V. Issued Share Capital
(A) II, V, IV, I, III
(B) II, IV, V, I, III
(C) V, II, IV, III, I
(D) II, V, I, IV, III

May/June 2023

32. Which of the following pairs relating to term loan features is incorrectly matched?

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describes concurrent control, not feedback control. The reason is true because feedback control is based on analyzing results after the activity has been completed. Therefore, the assertion incorrectly attributes the timing of concurrent control to feedback control, while the reason correctly defines the feedback mechanism.

91. (B) Delivering and supporting
COBIT is structured into four main domains: Planning and Organising, Acquiring and Implementing, Delivering and Supporting, and Monitoring and Evaluating. Within this framework, activities related to the execution and maintenance of IT services fall under the "Delivering and Supporting" domain. Marketing, hiring, and manufacturing are general business functions that are not classified as major IT governance domains within the COBIT structure.

92. (C) PERT
The project manager needs to represent all activities in their appropriate sequence and timing to organize and integrate them for a software launch. This describes the Program Evaluation and Review Technique (PERT). PERT is a modern project management tool that helps managers schedule and coordinate complex sets of tasks, ensuring that the project remains on track and that all dependencies are clearly understood.

93. (D) Dual control
The scenario describes a "four-eyes" principle where one employee inputs data and a second employee verifies it. This specific IT financial control is known as dual control. It is designed to minimize the possibility of errors or unauthorized transactions by requiring independent verification for high-value entries, thereby enhancing the accuracy and reliability of the bank's financial records and operational processes.

94. (C) Responsibility Accounting
Responsibility accounting is a management system where specific individuals are held accountable for the performance of distinct areas called responsibility centers. By classifying departments into cost, revenue, profit, or investment centers, the CEO can assess whether employees are meeting established criteria. This method ensures accountability and allows for more targeted evaluation of performance across a large, complex conglomerate.

95. (A) The allotted amount of time and the predetermined cost
In project management, successful completion is measured against specific constraints. The two most critical constraints are time and cost. Projects must be finished within the allotted schedule and without exceeding the predetermined budget. While other factors like morale are important, the primary focus of control techniques like PERT and CPM is to ensure the project remains within these foundational boundaries.

96. (B) Automated system controls ensuring data is processed correctly from input to output.
Transaction processing controls that are fully automated to ensure records are complete, valid, and authentic from input to output are classified as IT application controls. These are system-level checks designed to maintain data integrity during specific business processes. They differ from IT general controls, which manage the broader system environment, and from physical controls, which regulate access to the server hardware itself.

97. (A) COSO
The COSO framework for internal control is famously represented by a three-dimensional cube. This model illustrates the relationship between an organization's objectives, its organizational structure, and the five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. This mental representation helps managers visualize how internal controls are integrated across all levels of the enterprise.

98. (B) COBIT
The framework developed by the IT Governance Institute (part of ISACA) to combine various governance components into optimal management objectives is COBIT. It provides a comprehensive approach for the governance and management of enterprise IT. By adopting COBIT, the CISO can align IT operations with business goals and ensure that the organization's

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corporate sector
(A) P-3, Q-1, R-2, S-4
(B) P-3, Q-2, R-1, S-4
(C) P-2, Q-4, R-3, S-1
(D) P-3, Q-1, R-4, S-2

Oct/Nov 2007

39. Consider the following statements:
I. Internal accruals do not have any cost for use or servicing.
II. Internal accruals can include mandatory reserves which can be freely utilized as general reserves before the expiry period.
Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2015

40. Match the Share Capital types (List I) with their definitions (List II):
List I: Share Capital Type
P. Unpaid Share Capital
Q. Forfeited Shares
R. Calls in Arrears
S. Subscribed Share Capital
List II: Definition
1. Subscribed capital not fully paid and cancelled by the company
2. Amount finally determined as not paid
3. Portion of issued capital applied for and allotted
4. Part of called-up capital that shareholders failed to pay
(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-2, Q-4, R-1, S-3
(D) P-2, Q-1, R-4, S-3

Oct/Nov 2021

41. Consider the following statements regarding alternative financing:
I. Private equity is generally more liquid than publicly traded stocks.
II. An LBO entails the purchase of a company by a small group of investors largely financed by debt.
III. Foreign investment in India can be made under the Automatic Route and the Government Route.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

May/June 2020

42. What is the most appropriate definition of a Management Buyout (MBO)?
(A) A private investment in public equity involving the selling of publicly traded common shares
(B) A financing round prior to an initial public offering to inflate the management's salaries
(C) The purchase of a company whereby incumbent management is included in the buying group
(D) The acquisition of a small scale industrial unit by a foreign institutional investor

Oct/Nov 2014

43. Which of the following pairs of private equity types is correctly matched?
(A) Seed Financing — Financing the expansion of growth companies
(B) LBO — Purchase of a company largely financed by debt
(C) Bridge financing — Providing capital required for product development
(D) Third-stage — Financing the commercialization and production of products

May/June 2022

44. Match the Debenture Classifications (List I) with their basis (List II):
List I: Debenture Classification
P. Based on tenure
Q. Based on security
R. Based on convertibility
S. Based on negotiability
List II: Basis
1. Perpetual bonds
2. Providing first or second charge over fixed assets
3. Transferred by registered transfer form or mere delivery
4. Providing additional incentive to participate in growth
(A) P-2, Q-1, R-3, S-4
(B) P-1, Q-4, R-2, S-3
(C) P-4, Q-3, R-1, S-2
(D) P-1, Q-2, R-4, S-3

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CHAPTER 07

Sources of Finance and Financial Strategies

Oct/Nov 2014

1. What is the maximum period within which preference shares are required to be redeemed for non-infrastructure companies?
(A) 5 years
(B) 10 years
(C) 15 years
(D) 20 years

May/June 2022

2. Which statement correctly describes a characteristic of Debentures?
(A) The rate of interest on zero-coupon bonds fluctuates based on market conditions
(B) A call option in a debenture gives the investor the right to demand early redemption
(C) Debenture holders are strictly prohibited from having any voting rights
(D) Bearer debentures are the most common type and face no regulatory concerns

Oct/Nov 2008

3. What constitutes "internal accruals" for a company?
(A) Capital funds raised through the public issuance of new equity shares
(B) Temporary funding used to bridge the gap before long-term lenders release funds
(C) Retained profits from PAT, non-cash provisions, and annual depreciation
(D) Short-term borrowings secured against the current asset base of the business

May/June 2011

4. Which statement regarding the stages of Private Equity is incorrect?
(A) Seed Financing provides small sums of capital necessary to develop a business idea
(B) Start-up financing provides capital for product development and initial marketing activities
(C) Bridge financing is the funding required for young firms during their second-stage growth period
(D) Third-stage financing is intended for the expansion of growth companies

Oct/Nov 2020

5. Why is depreciation considered a part of internal accruals despite being a non-cash expense?
(A) It directly increases the general reserves available for declaring dividends
(B) It results in increasing the cash balance available to the company
(C) It can be freely utilized for the issuance of bonus shares
(D) It prevents the dilution of the promoters' voting rights in the company

May/June 2009

6. Restrictive clauses and covenants in term loan agreements typically include all of the following, EXCEPT:
(A) Requirements for rating by independent and reputed rating agencies
(B) Mandatory granting of comprehensive voting rights to the lending institution's depositors
(C) Prohibition on the withdrawal of loans or funds already brought in by the promoters
(D) Restrictions on dividend pay-outs and the promoters' right to dispose of their shares

Oct/Nov 2012

7. What does the term "operational cycle" refer to in the context of working capital finance?
(A) The total estimated lifespan of primary fixed manufacturing assets used during production
(B) The duration required for cash to complete a cycle and return to cash form
(C) The cumulative time required to fully repay a long-term commercial borrowing facility
(D) The scheduled interval between the formal

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(D) I, II, and III

May/June 2017

52. Arrange the following stages of private equity financing in the correct chronological order of corporate development:
I. Third-stage
II. Seed Financing
III. First-stage
IV. Start-up financing
V. Second-stage
(A) II, IV, III, V, I
(B) II, III, IV, I, V
(C) IV, II, III, V, I
(D) II, IV, V, III, I

Oct/Nov 2024

53. Match the Term Loan period classifications (List I) with their typical durations (List II):
List I: Term Loan Period
P. Short term loans
Q. Medium term loans
R. Long term loans
S. Housing loans
List II: Typical Duration
1. Range from 1 to 5 years
2. Repaid within a year
3. Ranging from 5 years to 30 years
4. Period from 5 to 10 years
(A) P-2, Q-4, R-1, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-2, Q-1, R-4, S-3
(D) P-4, Q-3, R-2, S-1

May/June 2010

54. Consider the following statements:
I. Preference shareholders have a limited right to participate in voting only on some of the resolutions.
II. Where dividend on preference shares has not been paid for two years or more, preference shareholders get a right to vote on all company resolutions.
Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2011

55. Which of the following is correctly paired regarding debentures?
(A) Zero-Coupon bonds — Issued at a discount to their redemption value
(B) Perpetual bonds — Repaid in equal monthly instalments
(C) Call option — Investor has the option to demand redemption
(D) Put option — Company can repay the principal before due date

May/June 2024

56. What is the best rationale for a lender incorporating a "moratorium" in a term loan agreement?
(A) A grace period for principal repayment until the project generates cash flows
(B) To permanently waive the borrower's obligation to pay any accrued interest
(C) To penalize the borrower for delaying the submission of various financial data
(D) To automatically convert the entire outstanding loan into equity shares

Oct/Nov 2006

57. Consider the following statements regarding Working Capital Finance:
I. It is based on the gap between current assets and current liabilities.
II. Bankers will finance the entire working capital gap without insisting on the borrower's contribution.
III. The quantum of working capital finance varies from time to time based on the level of business activities.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2012

58. Match the debenture options (List I) with their descriptions (List II):
List I: Debenture Option
P. Call option
Q. Put option
R. Zero-Coupon bonds
S. Convertible debentures
List II: Description
1. Issued at discount and payable at fixed interest on redemption
2. Holder gets an equity stake after a specific period

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Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2007

81. Read the following scenario and answer the question:
Gamma Infra, an infrastructure company, plans to issue Cumulative Redeemable Preference Shares. What is the permissible tenure for these Preference Shares?
(A) Strictly capped at 5 years
(B) Strictly capped at 10 years
(C) Strictly capped at 20 years
(D) The period can even be more than twenty years

May/June 2015

82. Consider the following statements regarding Preference Capital:
I. It is a stock preferred over equity shares regarding dividend payment and repayment in liquidation.
II. The dividend rate is fixed, just like debentures.
III. Dividend distribution is obligatory regardless of the availability of distributable profits.
IV. Cumulative preference shares guarantee the dividend, accumulating it if unpaid.
V. It forms a part of the net worth of the company and improves the debt-equity ratio.
Which of the above statement(s) is/are correct?
(A) I, II, IV, and V only
(B) I, III, IV, and V only
(C) II, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2021

83. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): Clean finance is considered the costliest form of finance.
Reason (R): The lender has no assets to fall upon in case of a default and runs higher risks which he would cover by charging a higher rate of interest.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2020

84. Read the following scenario and answer the question:
AlphaTech opts to fund its project through equity rather than a term loan, what is the primary benefit regarding repayment?
(A) The equity capital is repaid through a bullet payment after a moratorium period
(B) The principal amount of equity must be repaid within a maximum period of 20 years
(C) Unlike loans, there is no repayment involved in equity capital
(D) Equity repayment is matched precisely with the operational cash flows of the business

Oct/Nov 2014

85. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): A bank may provide a short-term loan under the head Working Capital Term Loan (WCTL) to a borrower.
Reason (R): The borrower's working capital loan is not being properly serviced due to temporary liquidity constraints, leaving the cash credit account generally overdrawn.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2022

86. Consider the following statements about restrictive covenants in term loans:
I. Lenders may prohibit the withdrawal of loans or funds already brought in by the promoters.
II. Lenders can mandate the infusion of additional funds by promoters.

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May/June 2013

64. Read the following scenario and answer the question:

Beta Manufacturing has recorded substantial Profit After Tax (PAT). The Board decides to retain a portion to fund an upcoming plant modernization and accounts for substantial depreciation.

Why is this depreciation considered part of the company's internal accruals?

(A) It represents cash profits that can be directly distributed as dividend
(B) It directly increases the general reserves of the company
(C) It results in increasing the cash balance available to the company
(D) It is utilized exclusively for issuing bonus shares to existing shareholders

Oct/Nov 2013

65. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).

Assertion (A): The real cost of servicing equity capital can actually turn out to be higher than a debt facility.

Reason (R): The dividend to be paid to the equity holders is out of post-tax profits and is not a deductible expense.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2014

66. Read the following scenario and answer the question:

What is the impact of Beta Manufacturing utilizing these retained earnings on the safety cover previously enjoyed by its existing lenders?

(A) The safety cover provided by the retained earnings is increased by the use of it
(B) The safety cover provided by the retained earnings remains completely unaffected
(C) The safety cover provided by the retained earnings is reduced by the use of it
(D) The lenders automatically gain voting rights to prevent the reduction of safety cover

Oct/Nov 2009

67. Consider the following statements regarding the drawbacks of Equity Capital:

I. The cost of equity capital is considered higher because equity shareholders expect a higher return for higher risk.
II. Raising funds through equity involves significant compliance costs, brokerage, and underwriting commission.
III. Dividend to equity holders is paid out of post-tax profits, making it non-deductible.
IV. Increasing equity capital by inducing the public dilutes the promoter's holding and control.

Which of the above statement(s) is/are correct?

(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

May/June 2005

68. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).

Assertion (A): In term loans with equal monthly instalments (EMI), the interest component carved out remains constant throughout the tenure.

Reason (R): From every instalment, the accrued interest is carved out first and only the remaining amount is apportioned towards principal.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2017

69. Read the following scenario and answer the question:

The founders of AlphaTech are reviewing their capital structure.

Which statement correctly distinguishes "Issued Share Capital" and "Subscribed Share Capital"?

(A) Subscribed Share Capital is the portion of the issued share capital that is applied for and allotted
(B) Issued Share Capital is always less than Subscribed Share Capital

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ANSWERS

1. (D) 20 years
Preference shares for companies other than infrastructure firms must be redeemed within a maximum period of twenty years. This statutory limit ensures that such capital does not remain permanent. The Companies Act regulates these instruments to protect investors while allowing companies to manage their long-term capital structure efficiently without creating perpetual liabilities.

2. (C) Debenture holders are strictly prohibited from having any voting rights
Debenture holders are creditors of a company and do not possess any ownership stake or voting rights in corporate matters. This distinction separates debt instruments from equity shares, where shareholders participate in decision-making. Regulated by legal frameworks, this provision prevents lenders from interfering in the management while securing their right to receive regular interest.

3. (C) Retained profits from PAT, non-cash provisions, and annual depreciation
Internal accruals consist of funds generated within the business operations, primarily through retained profits after tax and non-cash expenses. Items like depreciation and specific provisions represent cash remains within the company's control for reinvestment. These funds are crucial for financing growth and modernization without relying on external borrowing or diluting the existing ownership.

4. (C) Bridge financing is the funding required for young firms during their second-stage growth period
Bridge financing refers to temporary funding provided to fill the gap before long-term lenders release sanctioned funds or during the last round prior to an initial public offering. It is not intended for young firms during their second-stage growth period. Understanding the specific purpose of each private equity stage helps in aligning capital requirements with business cycles.

5. (B) It results in increasing the cash balance available to the company
Depreciation is a non-cash expense charged against profits, which reduces the taxable income without an actual outflow of funds. Consequently, this book entry retains a corresponding amount of cash within the entity. This liquidity serves as an internal source of finance for asset replacement or other operational needs, strengthening the company's self-financing capacity over time.

6. (B) Mandatory granting of comprehensive voting rights to the lending institution's depositors
Term loan agreements include various covenants to safeguard lender interests, such as restrictions on dividends or promoter share disposal. However, they do not require granting voting rights to the depositors of the lending institution. Such a demand would interfere with corporate governance and is not a standard practice in commercial lending or financial institution regulations.

7. (B) The duration required for cash to complete a cycle and return to cash form
The operational cycle represents the time taken for an enterprise to convert cash into raw materials, process them into finished goods, and finally realize cash through sales. It is a vital measure for determining working capital requirements. A shorter cycle indicates efficient asset utilization and liquidity management, whereas a longer cycle may necessitate higher levels of bank financing.

8. (B) The holders have rights to residual income and surplus assets during liquidation
Equity shareholders are the owners of the company and bear the highest risk, entitling them to residual income after all obligations are met. During liquidation, they receive a share of the surplus assets only after paying secured and unsecured creditors. This position provides them with voting rights and potential for significant capital appreciation in successful business ventures.

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(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2010

75. Read the following scenario and answer the question:
Beta Manufacturing holds a Dividend Equalisation Reserve created from post-tax profits. Can this mandatory reserve be immediately used as a free reserve for plant modernization?
(A) Yes, it can be utilized freely at any time without any statutory or board restrictions
(B) Yes, provided the minority shareholders are compensated with new unsecured debentures
(C) No, mandatory reserves must be surrendered to the statutory authorities on an annual basis
(D) Not usable until transferred to free reserves after the expiry period

May/June 2006

76. Consider the following statements regarding Internal Accruals:
I. They belong to the equity holders and become equity if converted into bonus shares.
II. Using internal accruals inevitably changes the ownership structure and results in control dilution.
III. There is a tendency for indiscriminate application of retained earnings because they are readily available.
IV. Retained earnings improve the safety cover provided to lenders.
Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, III, and IV

Oct/Nov 2022

77. Read the following scenario and answer the question:
Despite the lack of compulsory servicing cost, why might AlphaTech's actual cost of capital through equity be considered higher than a term loan?
(A) Equity shareholders require a guaranteed fixed monthly dividend for their investment
(B) Equity shares are not permitted to be listed on any recognized public stock exchanges
(C) Equity capital requires the immediate pledge of all the promoters' personal assets
(D) Dividends are from post-tax profits and are not tax-deductible

May/June 2016

78. Consider the following terms, conditions, and requirements typically incorporated in term loan agreements:
I. Reconstitution of the board and induction of independent directors.
II. Prior consent required for mergers, hiving off, or restructuring.
III. Statutory registrations or approvals.
IV. Maintenance of prudent financial ratios including debt-equity.
V. Appointment of compliance officers and proper Key Managerial Persons.
Which of the above statement(s) is/are correct?
(A) I, II, IV, and V only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2016

79. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): Private equity is often referred to as 'patient capital'.
Reason (R): It seeks to profit from long term capital gains rather than short term regular reimbursements.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2008

80. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): Preference capital is known as a quasi-risk capital.
Reason (R): It is not as safe as secured debts which get payment priority over preference shares in case of liquidation of a company.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of

NODIA

Delta Textiles approaches a financial institution for a term loan for expansion. The project cost is Rs. 300 Crores. If the lender applies the general and safe norm for the debt-equity ratio, what is the ideal equity contribution to safely borrow Rs. 200 Crores?

(A) Rs. 50 Crores
(B) Rs. 100 Crores
(C) Rs. 150 Crores
(D) Rs. 200 Crores

Oct/Nov 2005

93. Read the following scenario and answer the question:
Gamma Infra issued debentures to a group of 600 persons, what statutory requirement must they fulfill under the Companies Act?

(A) They must guarantee a seat on the board for every single debenture holder
(B) They must convert the debentures into equity shares within one year
(C) They must provide full voting rights to all 600 debenture holders
(D) Trustees are required to be appointed to look after the interest of the debenture holders

May/June 2017

94. Read the following scenario and answer the question: Zeta Global wishes to invest directly in an Indian Small Scale Industrial (SSI) unit. What is the maximum limit of the unit's paid-up capital they can acquire under the Foreign Direct Investment (FDI) policy?

(A) 10%
(B) 24%
(C) 49%
(D) 100%

Oct/Nov 2024

95. Read the following scenario and answer the question:
The term loan granted to Delta Textiles is denominated in a foreign currency. What risk does the company face during repayment, and what is the suggested mitigation?

(A) Higher repayment cost due to exchange variations; mitigated by forward contracts
(B) The risk of sudden early recall; mitigated by issuing cumulative preference shares
(C) The risk of statutory interest rate ceilings; mitigated by converting to equity
(D) The risk of registration failure; mitigated by appointing Key Managerial Persons

May/June 2010

96. Read the following scenario and answer the question:
Gamma Infra wants the flexibility to repay the debentures before the maturity date at a fixed price. What option should they incorporate in the issue document?

(A) Put option
(B) Call option
(C) Conversion option
(D) Perpetuity option

Oct/Nov 2011

97. Read the following scenario and answer the question:
Zeta Global plans a Leveraged Buyout (LBO) of a struggling local firm. What is the defining characteristic of this transaction?

(A) A company purchase by a small group, largely financed by debt
(B) A transaction involving selling publicly traded common shares to the general public
(C) A stage providing small sums of capital exclusively to develop a raw business idea
(D) A temporary funding mechanism used before an initial public offering in the market

May/June 2024

98. Read the following scenario and answer the question:
If Delta Textiles faces a liquidity crisis next year causing their cash credit account to remain overdrawn, what specific facility might the bank offer to restructure this temporary constraint?

(A) Bridge finance
(B) Working Capital Term Loan (WCTL)
(C) Leveraged Buyout (LBO)
(D) Private Investment in Public Equity (PIPE)

Oct/Nov 2006

99. Read the following scenario and answer the question: The lender grants a moratorium of 2 years on principal repayment to Delta Textiles. During this period, what is the typical obligation regarding interest payments?

(A) Interest is completely waived and forgiven
(B) Interest is accumulated and added to the principal without any interim payment
(C) Interest must be paid upfront in a single

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III. Borrowers generally have complete freedom to announce any dividend pay-out without lender restrictions.
IV. Lenders may insist on a first charge, failing which a pari-passu charge is required.

Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) I, II, and IV only
(C) II, III, and IV only
(D) I, III, and IV only

Oct/Nov 2008

87. Read the following scenario and answer the question:
A minority shareholder objects to Beta Manufacturing's heavy retention of profits. What is a valid disadvantage of the company heavily using internal accruals?
(A) It results in immediate dilution of ownership control for the minority shareholders
(B) Retained earnings are a deprivation of dividend and their over-use may hurt minority shareholders
(C) The use of internal accruals incurs a higher statutory taxation rate than issuing new equity
(D) It drastically increases the fixed interest burden on the company's balance sheet

May/June 2011

88. Consider the following stages of Private Equity activities:
I. Bridge financing is the first financing round for an early-stage startup.
II. Start-up financing provides capital for product development and initial marketing activities.
III. First-stage finances the commercialization and production of products.
IV. Second-stage provides working capital for young firms during the growth period.
V. Third-stage finances the expansion of growth companies.

Which of the above statement(s) is/are correct?
(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2020

89. Read the following scenario and answer the question:
AlphaTech, a new technology project, requires heavy initial investment. If the promoters decide to issue Equity Shares to the public, which of the following is true regarding the pricing of these shares?
(A) Equity Shares must strictly be priced at their nominal value without any premium or discount
(B) Price can be nominal, at a premium, or at a discount per regulations
(C) Equity Shares can only be issued at a discount to ensure full public subscription by investors
(D) Equity Shares must be priced dynamically based on daily market interest rates in the economy

May/June 2009

90. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): Internal accruals are completely devoid of any real cost for the company utilizing them.
Reason (R): Internal accruals represent undeclared dividend and the equity shareholders expect a reasonable return on these funds.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2012

91. Read the following scenario and answer the question:
Zeta Global is evaluating a tech startup that requires funds for product development and initial marketing activities.
Which stage of Private Equity financing best describes this requirement?
(A) Seed Financing
(B) Start-up financing
(C) First-stage financing
(D) Second-stage financing

May/June 2025

92. Read the following scenario and answer the question:

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(C) Issued Share Capital represents the maximum capital the company is authorised to issue by the Board
(D) Subscribed Share Capital includes only those shares that have been fully paid up in cash

May/June 2007

70. Consider the following statements about the advantages of Term Loans:
I. It is as good as a risk capital available at a fixed cost.
II. Repayment over a long period works out cheaper due to inflation depreciating the real value of the currency.
III. Interest paid is tax-deductible, making the expenditure much lower compared to post-tax dividends.
IV. Submission of timely data to the lender disrupts the organization's discipline.
V. In case of financial difficulties, banks are generally considerate to restructure the loan.
Which of the above statement(s) is/are correct?
(A) I, II, III, and V only
(B) I, III, IV, and V only
(C) II, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2018

71. Read the following scenario and answer the question:
If Gamma Infra suffers a loss next year and cannot pay the preference dividend, what happens to the dividend obligation for their Cumulative Preference Shares?
(A) Dividend accumulates and is paid once distributable surplus is available
(B) The dividend obligation is permanently and legally cancelled for that specific year
(C) The company is forced into immediate liquidation proceedings by the preference shareholders
(D) The preference shares are automatically converted into various classes of unsecured debentures

May/June 2019

72. Consider the following statements regarding Private Equity:
I. Private equity is often defined as providing equity to non-quoted companies with high growth potential.
II. Seed Financing involves providing large sums of capital for late-stage expansion.
III. PIPE deals involve the selling of publicly traded common shares or convertible security to private investors.
IV. MBO is a subset of LBO where incumbent management is included in the buying group.
Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, III, and IV

Oct/Nov 2025

73. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): Companies with medium to heavy borrowings are always rated a few notches higher than the ones having no or low borrowings.
Reason (R): If one leverages too much with regard to debt versus equity, it may sometimes prove disastrous leading to a debt trap.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2023

74. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): Depreciation charged to the Profit & Loss account is considered a part of a company's internal accruals.
Reason (R): Depreciation results in increasing the cash balance available to the company even though it does not affect the general reserves for declaring dividends.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

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lump sum before the moratorium begins

(D) Interest is required to be paid as and when due, as per mutual agreement

May/June 2012

100. Read the following scenario and answer the question:

Zeta Global chooses to invest by issuing non-convertible preference shares in an Indian company.

How will these shares be treated under FDI guidelines?

(A) They are considered as free reserves available for general business purposes

(B) They are considered as pure equity capital for all regulatory and tax purposes

(C) They are considered as internal accruals arising from the company's annual profits

(D) Considered debt and governed by ECB guidelines

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3. Issuer can repay principal before due date
4. Investor can demand redemption before due date

(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-1, Q-2, R-3, S-4

Oct/Nov 2015

59. Consider the following statements:
I. Dividend payment on equity capital is a tax-deductible expense.
II. Interest on loans is a tax-deductible expense resulting in the reduction of tax liability.
Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2021

60. Match the drawbacks (List I) with the respective source of finance (List II):
List I: Drawback
P. Real cost is higher as dividend is post-tax
Q. Deprivation of dividend hurts minority shareholders
R. Creates uncertainty due to contingent voting right devolution
S. Fixed cost hits bottom line disproportionately if business volumes fall
List II: Source of Finance
1. Internal Accruals
2. Preference Capital
3. Term Loans
4. Equity Capital
(A) P-1, Q-4, R-3, S-2
(B) P-4, Q-1, R-2, S-3
(C) P-4, Q-2, R-1, S-3
(D) P-2, Q-1, R-4, S-3

Oct/Nov 2023

61. Consider the following statements regarding Term Loan Appraisal and Security:
I. No term loan is granted without examining the economic viability and technical feasibility.
II. Tangible securities are always preferred by the lender.
III. The lender carries out an independent valuation of existing assets to determine the loan amount.
IV. The loan amount for creating new fixed assets is arrived at by the debt/equity ratio decided by the lender.
V. Lenders rely entirely on collateral securities of personal assets without creating a charge over primary assets.
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV only
(B) I, III, IV, and V only
(C) II, III, IV, and V only
(D) I, II, III, IV, and V

May/June 2018

62. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): Debenture holders possess voting rights equivalent to equity shareholders in a company.
Reason (R): Corporate laws often prohibit giving any voting rights to a debenture holder.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2019

63. Consider the following statements regarding Term Loans:
I. In certain regulated sectors, there are floor and ceiling rates of interest prescribed.
II. From every EMI, the accrued interest is carved out first, and the remaining amount is apportioned towards principal.
III. Repayments in foreign currency may result in higher actual repayment costs due to exchange rate variations.
IV. Term loans are strictly granted only for factory setups and never for housing or soft furnishing.
Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, III, and IV

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9. (B) Dividend payments on equity shares result in a reduction of the company's tax liability
Dividends paid on equity shares are distributed from the post-tax profits of a company and are not considered tax-deductible expenses. Unlike interest on debt, which provides a tax shield, equity servicing does not reduce the corporate tax liability. This factor often makes equity a costlier source of finance compared to loans when evaluating the overall capital structure.

10. (B) 24%
Foreign direct investment in an Indian Small Scale Industrial unit is subject to specific regulatory caps to protect domestic small-scale enterprises. A foreign investor can acquire up to twenty-four percent of the paid-up capital of such a unit. This limit ensures that while foreign capital is accessible, the control and majority ownership remain within the domestic sector.

11. (D) Mezzanine-stage financing exclusively for liquidation of obsolete inventory
Mezzanine financing typically represents a hybrid of debt and equity used for expansion or buyouts, rather than being exclusively for the liquidation of obsolete inventory. Standard private equity stages include seed, start-up, and various growth-related funding rounds. Each stage addresses specific financial needs related to the company's maturity, from initial product development to pre-IPO preparation.

12. (C) A financing arrangement where the lender has no assets to fall upon in case of a default
Clean finance refers to an unsecured lending arrangement where the lender does not hold any charge over the borrower's assets. In the event of a default, the lender has no specific security to realize the outstanding dues. Due to the high risk involved in such transactions, this type of financing usually carries a significantly higher interest rate compared to secured loans.

13. (A) Cumulative preference shares accumulate unpaid dividends for payment in subsequent profitable years
Cumulative preference shares are designed to protect investors by ensuring that any unpaid dividends accumulate over time. If a company fails to declare dividends in a particular year due to losses, these arrears must be paid before any dividend is distributed to equity shareholders in the future. This feature provides a layer of security to the investors.

14. (C) A loan meant to resolve temporary liquidity issues when working capital is poorly serviced
A Working Capital Term Loan is a credit facility granted to businesses facing temporary liquidity constraints that lead to poor servicing of their regular working capital. It helps in regularizing overdrawn accounts and provides the necessary breathing room for the company to stabilize its cash flows. This loan is usually repaid over a short to medium term.

15. (D) The use of internal accruals triggers a mandatory dilution of management control
Utilizing internal accruals for business expansion does not lead to the dilution of management control or ownership. Unlike issuing new equity shares to the public, retained earnings belong to the existing shareholders. While they may deprive shareholders of immediate dividends, they strengthen the financial base and improve the safety margin for creditors without altering the corporate structure.

16. (A) The amount of money a company has actually received from shareholders in exchange for shares
Paid-up share capital represents the actual amount of money that a company has received from its shareholders in exchange for shares. It is the portion of the called-up capital that has been successfully paid by the investors. This figure indicates the real equity contribution available to the company for its operations and is a key financial metric.

17. (A) Using internal accruals causes a direct dilution of the existing ownership structure
Internal accruals consist of retained earnings and non-cash provisions like depreciation which are generated within the company. Using these funds for growth does not result in the dilution of existing ownership or control, as no new shares are issued to outsiders. Instead, they enhance the net worth and increase the safety cover for the company's lenders and creditors.

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profile of the company. The assertion of zero cost is incorrect, while the explanation is true.

91. (B) Start-up financing
Start-up financing is the specific stage of private equity that provides capital for product development and initial marketing activities. It follows seed financing, which is for refining the basic idea. This funding is crucial for moving a company from a conceptual phase to a operational one where it can begin to produce and sell its products in the marketplace.

92. (B) Rs. 100 Crores
According to the general and safe norm of a 2:1 debt-equity ratio, a company should have one rupee of equity for every two rupees it borrows. For a loan of two hundred crores, the ideal equity contribution would be one hundred crores. This ensures the company has a solid financial foundation and provides a sufficient safety margin for the lending institution.

93. (D) Trustees are required to be appointed to look after the interest of the debenture holders
For an issue of debentures to more than five hundred persons, the Companies Act mandates the appointment of debenture trustees. These trustees are responsible for protecting the interests of the debenture holders and ensuring the company meets its obligations. They act as a bridge between the company and a large group of investors, providing oversight and a mechanism for collective action.

94. (B) 24%
Under India's Foreign Direct Investment policy, foreign investors are permitted to hold up to twenty-four percent of the paid-up capital of a Small Scale Industrial unit. This restriction is designed to balance the inflow of foreign capital with the need to protect the independence and competitive position of small-scale domestic enterprises within the national industrial framework and economy.

95. (A) Higher repayment cost due to exchange variations; mitigated by forward contracts
Borrowing in a foreign currency exposes a company to the risk of higher repayment costs if the domestic currency depreciates. This exchange rate volatility can significantly impact the financial burden of the loan. To mitigate this risk, companies often use forward contracts to lock in exchange rates for future repayments, providing certainty and protecting against adverse movements in the markets.

96. (B) Call option
A call option gives the issuing company the right to redeem or repay the debentures before their scheduled maturity date at a predetermined price. This provides the company with financial flexibility to refinance its debt if interest rates fall or if it has excess cash. It is a valuable feature for corporate treasury management to optimize the cost of debt.

97. (A) A company purchase by a small group, largely financed by debt
A Leveraged Buyout is characterized by a small group of investors purchasing a company using a substantial amount of borrowed money. The assets of the acquired company are typically used as collateral for the loans. This structure allows the investors to acquire a large firm with a relatively small amount of their own equity capital, aiming for high returns.

98. (B) Working Capital Term Loan (WCTL)
When a company's cash credit account remains consistently overdrawn due to temporary liquidity constraints, a bank may provide a Working Capital Term Loan. This facility regularizes the overdrawn amount and sets up a structured repayment plan over a short to medium term. It helps the borrower manage their cash flows better and ensures the primary working capital facility remains functional.

99. (D) Interest is required to be paid as and when due, as per mutual agreement
During a moratorium period, while the borrower is excused from repaying the principal amount, the obligation to pay interest remains. Typically, interest must be paid as and when it becomes due according to the agreed schedule. This ensures the lender receives their regular income even as the borrower is given a grace period to start generating cash flows from the project.

NODIA

27. (A) It creates a fixed and tax-deductible financial burden on the company
Raising funds through equity does not create a fixed financial burden because dividend payments are discretionary and depend on profits. Furthermore, dividends are not tax-deductible, unlike interest payments on debt. Equity provides permanent risk capital that does not require repayment, making it a flexible source of finance that strengthens the company's balance sheet and improves its creditworthiness.

28. (B) March 1, 1966
The Banking Companies Act of 1949 was officially renamed the Banking Regulation Act, 1949, on March 1, 1966. This legislative change reflected the expanded scope of the Act in regulating various banking operations in India. It remains the primary legal framework governing the banking sector, ensuring stability and protection for depositors through comprehensive oversight and regulatory controls.

29. (C) Bridge finance is a permanent funding solution to eliminate the need for long-term borrowing
Bridge finance is a short-term, temporary funding solution rather than a permanent one. It is used to meet immediate capital needs until long-term financing is secured or released. Financial strategies generally focus on optimizing the mix of funds to minimize costs and maximize benefits. Working capital finance specifically addresses the gap between current assets and current liabilities.

30. (D) Capital seeking long-term gains rather than immediate regular repayments
Private equity is often called patient capital because investors are willing to wait for several years to realize significant capital gains. Unlike lenders who require regular interest payments, private equity firms focus on long-term value creation and business growth. They exit their investments once the company achieves its potential, typically through a public offering or a strategic sale.

31. (A) II, V, IV, I, III
The logical sequence starts with Authorized Capital, which is the maximum amount a company can raise. Next is Issued Capital, offered to the public. Subscribed Capital follows as the portion applied for by investors. Called-up Capital represents the amount the company requests from subscribers, and finally, Paid-up Capital is the actual money received by the company.

32. (B) Currency — Loans strictly granted only in INR to eliminate foreign exchange risk
Term loans are not restricted to Indian Rupees; they can also be granted in foreign currencies. Foreign currency loans allow companies to access international capital markets but introduce exchange rate risks. To manage this, borrowers often use forward contracts. Security and moratorium are other key features where lenders prefer tangible assets and grant grace periods for principal repayment.

33. (B) The dividend cost is fixed and current owners avoid diluting their equity holding
Companies issue preference capital because it allows them to raise funds at a fixed dividend cost without diluting the voting power of the existing equity shareholders. It is a hybrid instrument that combines features of debt and equity. While it ranks higher than equity during liquidation, it provides more flexibility to management than secured debt obligations.

34. (B) Only II
The Automatic Route for Foreign Direct Investment does not require prior approval from the Reserve Bank of India or the Government. However, the statement regarding non-convertible preference shares is accurate, as they are classified as debt and governed by External Commercial Borrowing guidelines. This distinction is crucial for regulatory compliance and understanding the capital structure requirements for foreign investors.

35. (A) P-3, Q-1, R-2, S-4
Seed financing involves small sums to develop a business idea. Start-up financing is for product development and initial marketing. First-stage financing supports commercialization and production once the product is ready. Second-stage financing provides the necessary working capital for young firms during their growth period. These stages reflect the typical progression of a company from conception to established business operations.

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55. (A) Zero-Coupon bonds — Issued at a discount to their redemption value
Zero-coupon bonds are issued at a price lower than their face value and do not pay regular interest. The return to the investor is the difference between the discount price and the redemption value at maturity. This structure allows companies to defer cash outflows for interest, while investors benefit from capital appreciation over the term of the bond.

56. (A) A grace period for principal repayment until the project generates cash flows
Lenders incorporate a moratorium to provide borrowers with a grace period for principal repayment, allowing time for the project to start generating sufficient cash flows. This is particularly important for capital-intensive industries where the gestation period is long. It prevents early default and ensures that repayment schedules are realistic and aligned with the company's projected financial performance.

57. (C) I and III only
Working capital finance is determined by the gap between current assets and current liabilities, and its quantum fluctuates based on the level of business activity. Lenders do not finance the entire gap; they insist on a borrower's contribution, often called the margin. This ensures the borrower maintains a stake in the business and follows prudent financial management practices.

58. (A) P-3, Q-4, R-1, S-2
A call option allows the issuer to repay the principal before the due date. A put option gives the investor the right to demand early redemption. Zero-coupon bonds are issued at a discount and are payable at face value on redemption. Convertible debentures provide holders with an equity stake after a specific period, offering a path to becoming a shareholder.

59. (B) Only II
Interest on loans is a tax-deductible expense that helps reduce a company's total tax liability, making debt a more cost-efficient financing option in many cases. In contrast, dividend payments on equity capital are made from post-tax profits and do not provide any tax benefits to the issuing corporation. This fundamental difference significantly influences a company's choice between debt and equity.

60. (B) P-4, Q-1, R-2, S-3
Equity capital is costlier as dividends are post-tax. Internal accruals deprivation can hurt minority shareholders. Preference capital creates management uncertainty due to contingent voting rights. Term loans impose fixed costs that can hit the bottom line hard if business volumes decrease. These drawbacks highlight the risks and costs associated with different methods of corporate financing.

61. (A) I, II, III, and IV only
Term loan appraisal involves assessing technical feasibility, economic viability, and asset valuation. Lenders prefer tangible securities and determine loan amounts based on debt-equity ratios. However, they do not rely solely on personal collateral; they primarily create a charge over the project's assets. This comprehensive process ensures that the loan is backed by productive assets and sound business plans.

62. (D) Assertion (A) is false, but Reason (R) is true.
Debenture holders do not possess voting rights equivalent to equity shareholders because they are creditors, not owners. Most corporate laws explicitly prohibit granting voting rights to debenture holders to maintain a clear distinction between debt and ownership. The assertion is incorrect as it misrepresents the legal status of debenture holders, while the reason accurately reflects statutory regulations.

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63. (A) I, II, and III only
Term loans can have regulated interest rates and specific repayment structures where interest is carved out from EMIs first. Foreign currency loans carry exchange risks that can increase repayment costs. However, term loans are not exclusively for factory setups; they can be used for various purposes including housing, vehicle purchase, and even personal needs, depending on lender policy.

64. (C) It results in increasing the cash balance available to the company
Depreciation is a non-cash charge that reduces net profit on paper without a physical cash outflow. By deducting it before arriving at the Profit After

buffer for lenders, increasing their confidence. Higher equity levels generally signify lower financial risk. However, it does not involve a compulsory fixed cost of servicing, as dividends are discretionary. This flexibility allows companies to manage their cash flows better during periods of low profitability.

46. (B) Temporary funding filling the gap between fund need and release by long-term lenders
Bridge finance is a temporary funding mechanism designed to provide liquidity until long-term financing becomes available. It effectively "bridges" the time gap between the immediate need for funds and the actual disbursement by long-term lenders or capital markets. This type of finance is essential for maintaining project momentum and ensuring that urgent operational requirements are met.

47. (B) Only II
A moratorium is a grace period granted specifically for the repayment of the principal amount, particularly in large projects where cash generation takes time. During this period, the borrower is still generally required to pay the interest as and when it becomes due. Interest is not waived off; it remains a legal obligation of the company throughout the loan tenure.

48. (B) P-4, Q-1, R-2, S-3
Clean finance is expensive because it lacks asset backing. Bridge finance serves as temporary funding to fill a timing gap. A moratorium provides a grace period for principal repayment during the early stages of a project. A Working Capital Term Loan is designed to address temporary liquidity issues and regularize overdrawn accounts caused by poor working capital management.

49. (A) Preference Capital — Enjoys full voting rights on all company resolutions
Preference shareholders do not enjoy full voting rights on all company resolutions by default. Their voting rights are generally restricted to matters directly affecting their interests, such as changes to share capital or liquidation. Full voting rights only accrue if dividends remain unpaid for a specified period, typically two years, as per the legal provisions of the Companies Act.

50. (C) P-2, Q-4, R-1, S-3
A Leveraged Buyout is a debt-financed company purchase. PIPE involves selling public shares to private investors. Bridge financing often serves as the final round before an IPO. Foreign Direct Investment in Small Scale Industrial units is capped at twenty-four percent of the paid-up capital. These strategies provide diverse ways for companies to raise capital.

51. (B) II and III only
Debentures are typically redeemed on a fixed date, marking the end of the borrowing term. Perpetual bonds, which do not have a fixed maturity date, are also permitted in certain contexts. However, debenture holders are creditors and are strictly prohibited from having voting rights in the company's management, ensuring a clear separation between debt providers and equity owners.

52. (A) II, IV, III, V, I
The development starts with Seed Financing for ideas. Start-up financing follows for initial product and marketing work. First-stage financing supports commercial production. Second-stage financing provides working capital for growth. Finally, Third-stage financing is used for the large-scale expansion of established growth companies. This sequence reflects the increasing maturity and decreasing risk of the business.

53. (C) P-2, Q-1, R-4, S-3
Short-term loans are generally repaid within one year. Medium-term loans range from one to five years. Long-term loans typically have a duration of five to ten years. Housing loans are unique as they can extend over much longer periods, often ranging from five to thirty years. These classifications help in aligning the loan tenure with the underlying asset's life.

54. (C) Both I and II
Preference shareholders normally have limited voting rights, restricted to matters that directly affect their class of shares. However, if the company fails to pay their dividends for a period of two years or more, they are granted the right to vote on all resolutions presented at company meetings. This serves as a protective measure for their investment return.

NQDIA

18. (D) More than 500 persons
According to the Companies Act, if a company issues debentures to more than five hundred persons, it is mandatory to appoint debenture trustees. These trustees act on behalf of the debenture holders to safeguard their interests and ensure compliance with the terms of the issue. This requirement provides a protective mechanism for a large group of retail investors.

19. (D) Issue of non-convertible preference shares to foreign investors is considered as debt
Under current foreign direct investment policies in India, the issuance of non-convertible preference shares to foreign investors is treated as debt. Such instruments are governed by the guidelines related to External Commercial Borrowings. This classification ensures that these investments are monitored for their repayment obligations and interest servicing, distinct from pure equity capital or convertible financial instruments.

20. (A) The real value of the currency units paid in the future goes down due to depreciation
Inflation causes the purchasing power of money to decrease over time, which conceptually benefits borrowers of long-term loans. As the real value of the currency units falls, the borrower repays the debt using money that is worth less than when it was originally borrowed. This dynamic effectively reduces the economic burden of the principal repayment in real terms.

21. (C) The absence of any redemption requirement allows the capital to remain indefinitely
The Companies Act mandates that all preference shares must be redeemable within a specified timeframe, generally twenty years for non-infrastructure firms. Therefore, the absence of any redemption requirement is not a characteristic of these instruments. This mandatory redemption ensures that the capital is not permanent and protects the company from long-term fixed dividend obligations that could impact growth.

22. (C) For every Rs. 100 of equity, one can safely borrow up to Rs. 200
A debt-equity ratio of 2:1 is generally considered a safe and standard norm for many industries. This means for every hundred rupees of equity capital provided by the promoters or shareholders, the company can comfortably borrow up to two hundred rupees. Maintaining this balance ensures that the firm has a healthy level of leverage without risking financial distress.

23. (D) Dividends are not tax-deductible, whereas interest on loans reduces the company's tax liability
Interest paid on debt is a tax-deductible expense, which reduces a company's taxable income and overall tax liability. In contrast, dividends on equity are paid out of post-tax profits and offer no such tax advantage. Consequently, the effective cost of equity is often higher, especially considering the higher returns expected by shareholders for bearing ownership risks.

24. (D) The interest paid on term loans is not tax-deductible for the borrowing company
Interest payments on term loans are legally classified as business expenditures and are therefore tax-deductible. This deduction provides a tax shield, reducing the actual cost of borrowing for the company. Other features of term loans include moratoriums on principal repayment and the potential impact of exchange rate fluctuations on loans denominated in foreign currencies during the tenure.

25. (B) Issued capital including shares for cash and non-cash considerations
Issued share capital refers to the total number of shares that a company has offered to the public or specific parties for subscription. This includes shares issued for cash consideration as well as those issued for non-cash considerations, such as the acquisition of assets or services. It is a subset of the authorized capital defined in the company's memorandum.

26. (D) Any company instrument evidencing debt, whether creating a charge on assets or not
The Companies Act defines a debenture as any instrument issued by a company that serves as evidence of debt. This applies whether or not the instrument creates a charge on the company's assets. Debentures are a common method for raising long-term finance from the public, providing a fixed rate of interest and a specified timeline for principal repayment.

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Tax, the company retains the equivalent amount of cash within the business. This retained liquidity increases the available cash balance, which can be used for modernization or other capital investments without seeking external funds.

65. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The cost of servicing equity can be higher than debt because dividends are paid from after-tax profits, whereas interest is tax-deductible. Since the company does not get a tax shield from dividends, the real economic cost to the firm is higher. This relationship explains why management must carefully balance the mix of debt and equity to optimize the cost of capital.

66. (C) The safety cover provided by the retained earnings is reduced by the use of it
Retained earnings form a part of the company's net worth and act as a safety buffer for lenders. When a company utilizes these funds for new investments, the absolute amount of retained earnings available as a cushion decreases. This reduction in the safety cover can increase the perceived risk for existing lenders, even if the funds are used for productive purposes.

67. (D) I, II, III, and IV
Raising equity is costly due to high compliance and issuance expenses. Shareholders demand higher returns to compensate for their risk, and dividends are not tax-deductible. Furthermore, issuing new shares to the public dilutes the existing promoters' ownership and control over the company. These factors represent the significant financial and strategic disadvantages that management must consider when raising equity capital.

68. (D) Assertion (A) is false, but Reason (R) is true.
In an EMI structure, the interest component does not remain constant; it decreases over time as the principal balance is repaid. However, the reason is correct because every instalment is first applied to the accrued interest, and only the remaining portion reduces the principal. This method ensures that the lender receives interest on the outstanding balance throughout the loan tenure.

69. (D) Subscribed Share Capital is the portion of the issued share capital that is applied for and allotted.
Issued share capital refers to the part of authorised capital that a company offers to investors. Subscribed share capital is the portion of issued capital that investors actually apply for and are allotted. Thus, subscribed capital is always a part of issued capital. Other options are incorrect because they confuse authorised capital or paid-up capital with issued and subscribed capital.

70. (A) I, II, III, and V only
Term loans offer fixed-cost capital and tax-deductible interest. Inflation benefits borrowers by lowering the real value of future repayments. Banks are also often willing to restructure loans during financial hardships. However, the statement that timely data submission disrupts discipline is incorrect; rather, it fosters organizational discipline and transparency, which is beneficial for long-term health and lender relationships.

NODIA

71. (A) Dividend accumulates and is paid once distributable surplus is available
For cumulative preference shares, the company's inability to pay dividends due to losses does not cancel the obligation. Instead, the unpaid dividends accumulate as arrears. These must be cleared in future years when the company has sufficient distributable surplus, before any dividends can be paid to equity shareholders. This feature protects the income stream for preference shareholders.

72. (B) I, III, and IV only
Private equity targets non-quoted companies with growth potential. PIPE deals involve selling public securities to private investors, and MBO is a type of buyout involving incumbent management. However, seed financing is for the very earliest stage of developing a business idea, not for late-stage expansion. Understanding these distinctions is key to categorizing private equity transactions based on business maturity.

73. (D) Assertion (A) is false, but Reason (R) is true.
Companies with heavy borrowings are not necessarily rated higher; in fact, excessive leverage can lead to lower credit ratings due to increased risk of default. The reason is correct

because over-leveraging can lead to a debt trap and financial disaster. Effective financial management requires maintaining an optimal debt-equity ratio that balances the benefits of leverage with the risks of insolvency.

74. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Depreciation is a non-cash expense that is added back to arrive at the cash flow, effectively keeping funds within the company. This makes it a part of internal accruals. While it does not increase general reserves available for dividend distribution, it does increase the cash balance available for reinvestment. This relationship explains why depreciation is considered internal financing.

75. (D) Not usable until transferred to free reserves after the expiry period
Mandatory reserves like the Dividend Equalisation Reserve are created for specific statutory or policy purposes. They cannot be immediately used as free reserves for other activities like plant modernization. Such funds must remain in the reserve until the expiry of the mandatory period or until they are legally transferred to free reserves according to the governing corporate laws and regulations.

76. (B) I, III, and IV only
Internal accruals belong to equity holders and improve lender safety by increasing net worth. They can lead to bonus shares, effectively becoming equity. However, using them does not change the ownership structure or dilute control, as no new external shares are issued. There is also a risk of indiscriminate use by management because these funds are easily accessible.

77. (D) Dividends are from post-tax profits and are not tax-deductible
The actual cost of equity is often higher than debt because dividends are distributed from post-tax profits. Interest on loans is a pre-tax expense, providing a tax shield that lowers the effective cost of borrowing. Even without a compulsory servicing cost, the lack of tax deductibility makes equity a more expensive way to fund projects compared to debt facilities.

78. (D) I, II, III, IV, and V
Term loan agreements include various restrictive covenants to protect the lender's interests. These can range from requiring board reconstitution and prior consent for major corporate changes to maintaining specific financial ratios and complying with statutory registrations. Appointing proper managerial personnel is also often required. These conditions ensure that the borrowing company is managed prudently and remains capable of repayment.

79. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Private equity is known as patient capital because it is invested with a long-term horizon. Investors seek to generate profits from capital gains realized upon the eventual exit rather than through regular short-term interest or dividend payments. This long-term commitment allows the invested companies to focus on growth and value creation without the pressure of immediate repayments.

80. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Preference capital is termed quasi-risk capital because it occupies a middle ground between debt and equity. It is not as safe as secured debt since lenders have priority over preference shareholders during liquidation. However, it is safer than equity because it has priority for dividend payments and asset distribution. This hierarchy of claims defines its status as a hybrid instrument.

81. (D) The period can even be more than twenty years
While preference shares for general companies must be redeemed within twenty years, infrastructure companies are permitted to issue preference shares for longer periods. This exception acknowledges the long gestation and operation periods typical of infrastructure projects. The Companies Act allows for this extended tenure to support large-scale national development projects that require long-term capital commitment without redemption pressure.

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82. (A) I, II, IV, and V only
Preference capital has priority over equity for dividends and liquidation, with fixed rates and potential for accumulation in cumulative shares. It forms part of the net worth, improving the debt-equity ratio. However, dividend distribution is not mandatory if there are no distributable profits, unlike interest on debentures which must be paid regardless of the company's profitability or surplus.

83. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Clean finance is the most expensive type of loan because it lacks collateral. The lender faces a higher risk as there are no assets to seize and sell in case of a default. To compensate for this elevated risk profile, the lender charges a significantly higher interest rate compared to secured loans. This direct link between risk and return explains the cost.

84. (C) Unlike loans, there is no repayment involved in equity capital
A major advantage of equity capital is that it is a permanent source of finance and does not require repayment to the shareholders. Unlike term loans or debentures, which have fixed maturity dates and mandatory principal repayments, equity remains with the company for its entire lifespan. This provides the company with stable capital and eliminates the risk of default on principal obligations.

85. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Banks offer Working Capital Term Loans to help companies whose regular cash credit accounts are overdrawn due to temporary liquidity problems. This loan regularizes the account and provides a structured repayment plan for the overdrawn amount. By addressing the mismatch between short-term assets and liabilities, the WCTL helps the borrower stabilize their operations and regain financial health.

86. (B) I, II, and IV only
Lenders often impose restrictions such as prohibiting promoter fund withdrawals, mandating additional fund infusions, and requiring specific charges on assets. Borrowers do not have complete freedom over dividends; lenders typically restrict payouts to ensure adequate cash remains for loan servicing. These covenants are designed to protect the lender's investment and ensure the company prioritizes its debt obligations.

87. (B) Retained earnings are a deprivation of dividend and their over-use may hurt minority shareholders
When a company heavily relies on internal accruals, it retains profits instead of distributing them as dividends. This can be a significant disadvantage for minority shareholders who may depend on regular dividend income. While this strategy strengthens the company's financial position and avoids control dilution, it effectively forced reinvestment on shareholders who might have preferred immediate cash returns.

88. (B) II, III, IV, and V only
Start-up financing covers product development, first-stage handles commercialization, second-stage provides working capital for growth, and third-stage supports expansion. However, bridge financing is not the first stage; it is a temporary funding mechanism used at various points, often as a pre-IPO round. Each stage corresponds to a different phase of corporate maturity and carries different levels of investment risk.

89. (B) Price can be nominal, at a premium, or at a discount per regulations
Companies have the flexibility to price their equity shares at nominal value, at a premium, or at a discount, subject to prevailing regulations and market conditions. This allows the company to raise capital effectively based on its perceived value and investor demand. The pricing strategy is an important part of capital structure planning and must comply with legal requirements.

90. (D) Assertion (A) is false, but Reason (R) is true.
Internal accruals are not devoid of cost; they have an implicit opportunity cost because they represent earnings belonging to shareholders. If the funds were distributed as dividends, shareholders could invest them elsewhere. Therefore, shareholders expect a reasonable return on these retained funds, matching the risk

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36. (B) I and III only
Preference capital is considered quasi-risk capital because it is less secure than debt but has priority over equity. Banks have the unique option to issue perpetual debt instruments instead of redeemable preference shares to meet capital requirements. However, the dividend rate on preference shares is typically fixed and does not fluctuate based on daily profits like equity dividends.

37. (A) When loan quality falls and the borrower cannot pay interest or instalments
Lenders may convert a portion of a term loan into equity when a borrower experiences financial distress and is unable to meet interest or principal repayment obligations. This conversion helps in restructuring the debt, reducing the immediate financial burden on the company, and allowing the bank to potentially recover its funds through future capital appreciation once the company recovers.

38. (D) P-3, Q-1, R-4, S-2
The Companies Act prohibits the issuance of non-redeemable preference shares. FEMA governs foreign investment regulations in India. SEBI provides guidelines for financial advisors and corporate lending disclosures. The RBI is the primary regulator for the banking sector and NBFCs. These regulatory frameworks collectively ensure financial stability, transparency, and investor protection across the Indian corporate and financial landscape.

39. (D) Neither I nor II
Internal accruals do have an implicit cost because shareholders expect a return on retained earnings, similar to the dividends they forgo. Additionally, mandatory reserves like the Dividend Equalisation Reserve cannot be freely utilized as general reserves until their specified expiry period. Understanding these nuances is essential for effective financial management and respecting the rights of all shareholders.

40. (D) P-2, Q-1, R-4, S-3
Unpaid share capital is the amount finally determined as not paid. Forfeited shares are subscribed capital not fully paid and cancelled by the company. Calls in arrears represent the part of the called-up capital that shareholders have failed to pay by the deadline. Subscribed share capital is the portion of issued capital that investors have applied for.

41. (C) II and III only
A Leveraged Buyout involves purchasing a company using a significant amount of borrowed funds. Foreign investment in India is facilitated through both the Automatic and Government Routes. Contrary to the first statement, private equity investments are generally less liquid than publicly traded stocks because there is no active secondary market where they can be traded on a daily basis.

42. (C) The purchase of a company whereby incumbent management is included in the buying group
A Management Buyout occurs when the existing management team of a company purchases the business, often with the support of private equity investors. This transition allows the management to gain ownership and control of the company they already operate. It is a subset of leveraged buyouts and typically happens when a parent company divests a non-core division.

43. (B) LBO — Purchase of a company largely financed by debt
A Leveraged Buyout is characterized by the acquisition of a company where the purchase price is funded largely through debt, using the acquired firm's assets as collateral. Other stages like seed financing are for early ideas, and bridge financing is for temporary gaps. Third-stage financing is generally for expansion rather than the initial commercialization, which typically occurs during the first stage.

44. (D) P-1, Q-2, R-4, S-3
Based on tenure, debentures include perpetual bonds. Based on security, they can provide first or second charges over assets. Based on convertibility, they offer incentives for investors to participate in future growth by becoming shareholders. Based on negotiability, they are transferred via registered forms or mere delivery, determining how easily the ownership of the debt can change.

45. (A) I and II only
Equity capital serves as vital risk capital that supports business growth and provides a safety

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100. (D) Considered debt and governed by ECB guidelines

In the context of Foreign Direct Investment in India, non-convertible preference shares are treated as debt rather than equity capital. Therefore, they are governed by the rules and regulations applicable to External Commercial Borrowings. This classification impacts how the investment is reported, the limits on interest rates, and the requirements for repayment and repatriation of funds to the foreign investor.

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(A) I, II, III, and IV only
(B) I, II, III, and V only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

Oct/Nov 2019

62. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option:
Assertion (A): A business with a very low fixed cost and low contribution will be in profit even if sales volume comes down substantially.
Reason (R): Fixed operating expenses serve as a pivot; with very low fixed costs, the business is less sensitive to sales drops.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2009

63. Read the following statements regarding the concept of a 'pivot' in leverage and select the correct option:
I. Fixed operating expenses serve as a pivot in operating leverage.
II. Fixed financial charges serve as a pivot in financial leverage.
III. Greater fixed operating costs make operating cash flows less sensitive to sales variations.
IV. Combining the effects, fixed operating and financial costs operate as a pivot to enhance the sensitivity of available cash flows to changes in units sold.
Which of the above statements are correct?
(A) I, II, and III only
(B) I, II, and IV only
(C) II, III, and IV only
(D) I, III, and IV only

Oct/Nov 2011

64. Firm Beta reports Sales Revenue of Rs. 10,00,000, Variable Costs of Rs. 4,00,000, and Fixed Operating Costs of Rs. 3,00,000 with zero debt. What is the Degree of Operating Leverage (DOL) for Firm Beta?
(A) 1.50 times
(B) 2.50 times
(C) 2.00 times
(D) 3.00 times

May/June 2010

65. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option:
Assertion (A): EBT is directly proportional to EPS.
Reason (R): The tax rate and number of equity shares are variable factors that adjust with operational output.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

66. Since Firm Beta operates with a DFL of exactly 1, how will the percentage change in Earnings Per Share (EPS) behave?
(A) Be equal to the percentage change in EBIT.
(B) Move inversely with EBIT.
(C) Experience a disproportionately higher percentage change compared to EBIT.
(D) Remain constant irrespective of sales volume changes.

May/June 2017

67. Read the following statements regarding the behavior of DFL and select the correct option:
I. When there are no fixed interest charges, DFL is exactly 1.
II. A negative DFL indicates the firm is operating lower than the break-even point.
III. When EBT is zero, DFL is evaluated as undefined.
IV. A positive DFL implies EBIT and EPS move in the same direction.
Which of the above statements are correct?
(A) I, II, and III only
(B) I, II, and IV only
(C) II, III, and IV only
(D) I, III, and IV only

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(C) Any percentage change in EBT results in a higher percentage change in EPS.
(D) EBT and EPS move in opposite directions when the firm is above break-even.

May/June 2019

9. Identify the incorrect statement about operating leverage.
(A) It considers other fixed expenses except interest and correlates these to the profit.
(B) A business with high operating leverage is immune to changes in sales volume.
(C) If fixed costs exceed variable costs, the business has high operating leverage.
(D) Degree of Operating Leverage can be mathematically written as Contribution / EBIT.

Oct/Nov 2006

10. What formula is used to calculate the Interest Coverage ratio?
(A) Total Debt / Total Assets
(B) Total Debt / EBIDTA
(C) EBIT / Interest expense
(D) Total Assets / Total Equity

May/June 2021

11. High operating leverage is characterized by all of the following EXCEPT:
(A) High fixed costs exceeding variable costs.
(B) High sensitivity to changes in sales volume.
(C) Higher break-even point.
(D) Low impact of sales volatility on the firm's EBIT.

Oct/Nov 2010

12. In Du-Pont analysis, how is the "equity multiplier" defined?
(A) Total Debt divided by Total Equity.
(B) Total Assets divided by Total Debt.
(C) Total Assets divided by Total Equity.
(D) Earnings Before Interest and Tax divided by Interest expense.

May/June 2005

13. Identify the correct statement regarding the Degree of Total Leverage (DTL).
(A) DTL can be written as Contribution divided by Earnings Before Tax (EBT).
(B) DTL is calculated by adding the Degree of Financial Leverage and the Degree of Operating Leverage.
(C) A 10% increase in revenue will always result in a 10% increase in EPS.
(D) DTL eliminates the sensitivity of cash flows to changes in unit sales.

Oct/Nov 2022

14. What does a positive Degree of Financial Leverage (DFL) signify about a firm's operations?
(A) The firm is operating exactly at the break-even point.
(B) The firm has zero fixed interest charges.
(C) The firm is operating at a level higher than the break-even point.
(D) The firm is operating below the break-even point.

May/June 2018

15. When establishing the direct proportionality between Earnings Before Tax (EBT) and Earnings Per Share (EPS), all of the following are considered constants EXCEPT:
(A) Tax rate
(B) Number of equity shares
(C) Face value of equity shares
(D) Sales volume

Oct/Nov 2016

16. How is the Degree of Financial Leverage (DFL) mathematically defined?
(A) Ratio of percentage change in Earnings Per Share to percentage change in Earnings Before Interest and Tax.
(B) Ratio of percentage change in Earnings Before Interest and Tax to percentage change in Sales.
(C) Ratio of percentage change in Earnings Before Interest and Tax to percentage change in Earnings Per Share.
(D) Ratio of percentage change in Sales to percentage change in Earnings Before Tax.

May/June 2014

17. Identify the incorrect statement concerning the relationship between leverage and break-even point.
(A) Lower fixed cost correlates with a high degree of operating leverage.
(B) A firm with high leverage has a higher break-even point.
(C) A firm with low leverage has a lower break-even point.
(D) High fixed cost correlates with a high degree of operating leverage.

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CHAPTER 08
Financial and Operating Leverages

May/June 2016

1. What physical mechanism is used as the simplest example of a lever?
(A) A pulley
(B) A wheel and axle
(C) A inclined plane
(D) A see-saw

Oct/Nov 2009

2. Identify the correct statement about a business with low fixed costs and low contribution.
(A) Any substantial drop in business will be immediately disastrous.
(B) It is considered to have high operating leverage.
(C) It will remain in profit even if the sales level comes down substantially.
(D) It requires a high volume of sales to achieve its break-even point.

May/June 2023

3. What is the definition of the Degree of Operating Leverage (DOL) when expressed using Contribution?
(A) Total Earnings Before Interest and Taxes divided by the current Contribution.
(B) Gross Contribution margin divided by the calculated Earnings Before Tax.
(C) Contribution margin divided by Earnings Before Interest and Taxes.
(D) Total Net Sales revenue divided by Earnings Before Interest and Taxes.

Oct/Nov 2018

4. Identify the incorrect statement regarding combined leverage.
(A) It is a product of both financial and operating leverages.
(B) Fixed operating and financial costs operate as a pivot to enhance sensitivity.
(C) Fixed costs in combined leverage include only operating fixed costs.
(D) A marginal percentage change in revenue leads to a disproportionate percentage change in EBT.

May/June 2007

5. Why do owners impose a limit on borrowings as a prudential measure despite the potential to increase Return on Equity?
(A) Excessive borrowings significantly decrease the fixed costs of operations.
(B) Higher debt reduces the financial cushion to absorb adverse business events.
(C) Borrowings increase the number of equity shares, diluting current ownership.
(D) High borrowings automatically reduce the tax rate applicable to the business.

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Oct/Nov 2025

Operating leverage correlates to profit by considering all fixed expenses EXCEPT:
(A) Rent expense
(B) Interest
(C) Depreciation
(D) Administrative salaries

May/June 2012

7. What is the definition of operating leverage in the context of business operations?
(A) Maximizing net earnings per share through the strategic utilization of external debt and borrowed capital.
(B) Using operational fixed costs to magnify the impact of sales changes on operating income.
(C) Deploying advanced financial leverage to ensure the maximum possible valuation of enterprise assets.
(D) Integrating equity and debt structures to achieve a superior market valuation for the organization.

Oct/Nov 2014

8. Identify the correct statement regarding Earnings Before Tax (EBT) and Earnings Per Share (EPS).
(A) EBT levels are typically inversely proportional to the resulting EPS figures.
(B) EBT is directly proportional to EPS given constant tax and share counts.

May/June 2020

27. All of the following are common methods to calculate financial leverage EXCEPT:
(A) Profit-Volume ratio
(B) Debt-to-EBIDTA ratio
(C) Interest Coverage ratio
(D) Equity Multiplier

Oct/Nov 2015

28. What type of business is provided as an example of having high fixed costs and high operating leverage?
(A) A hospital
(B) A wholesaler
(C) A retail shop
(D) A consulting firm

May/June 2013

29. Identify the incorrect statement regarding methods to calculate financial leverage.
(A) Debt-to-Assets ratio is calculated as Total Debt / Total Assets.
(B) Debt-to-Equity ratio is calculated as Total Debt / Total Equity.
(C) Interest Coverage ratio is calculated as Interest expense / EBIT.
(D) Du-Pont analysis uses Total assets / Total Equity.

Oct/Nov 2021

30. In the context of operating leverage, what role do fixed operating expenses play?
(A) They determine the optimal level of financial debt for the firm's structure.
(B) They are specifically excluded from the primary calculation of Contribution.
(C) They ensure that the Earnings Per Share remains constant despite volatility.
(D) They act as a pivot to magnify operating cash flow sensitivity to sales.

May/June 2024

31. When analyzing the impact of combined leverage, what is the chronological sequence of parameters reacting to a change?
(A) EBT → EPS → EBIT → Revenue
(B) EBIT → Revenue → EPS → EBT
(C) Revenue → EBIT → EBT → EPS
(D) EPS → EBT → Revenue → EBIT

Oct/Nov 2008

32. Identify the incorrect pair regarding the financial metrics.
(A) Contribution : Sales minus Variable Cost
(B) EBT : EBIT minus Fixed Cost
(C) Degree of Total Leverage : DFL multiplied by DOL
(D) Interest Coverage ratio : EBIT divided by Interest expense

May/June 2006

33. Why is financial leverage considered a "double-edged sword"?
(A) It only affects the operating expenses and leaves financial expenses unchanged.
(B) It can enhance the return on equity but, beyond a point, affect it adversely.
(C) It requires equal amounts of debt and equity to function.
(D) It increases both variable costs and fixed costs simultaneously.

Oct/Nov 2017

34. Read the following statements and select the correct option:
I. If DFL is more than one, financial leverage becomes relevant.
II. A positive DFL means that the firm is operating at a level higher than the break-even point.
Which of the above statements is/are correct?
(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

May/June 2008

35. Match the business characteristic in List I with its corresponding break-even point attribute in List II:
List I: Business characteristic
P. Firm with high leverage
Q. Firm with low leverage
R. High fixed cost
S. Low fixed cost
List II: Break-even point attribute
1. Higher Break-even point
2. Lower Break-even point
3. High degree of operating leverage
4. Lower degree of operating leverage
(A) P-1, Q-2, R-3, S-4
(B) P-2, Q-1, R-4, S-3
(C) P-3, Q-4, R-1, S-2
(D) P-4, Q-3, R-2, S-1

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May/June 2012

49. Identify the incorrect statement linking the DFL outcome to its operational condition.
(A) DFL is less than 1 : Operating above the break-even point
(B) DFL is 1 : No Fixed Interest charges
(C) DFL is negative : Operating below the break-even level
(D) DFL is undefined : Operating at the break-even level

Oct/Nov 2014

50. Match the source of risk in List I with the pivot that influences it in List II:
List I: Source of risk
P. Sensitivity of operating cash flows to sales variations
Q. Sensitivity of owners' cash flows to changes in operating cash flows
R. Overall sensitivity of available cash flows to units sold
S. Earnings Per Share directly proportional to EBT
List II: Pivot
1. Fixed operating expenses
2. Fixed financial charges (Interest)
3. Fixed operating and financial costs combined
4. Constant tax rate and number of equity shares
(A) P-2, Q-1, R-4, S-3
(B) P-3, Q-4, R-1, S-2
(C) P-1, Q-2, R-3, S-4
(D) P-4, Q-3, R-2, S-1

May/June 2019

51. Read the following statements about Combined Leverage and select the correct option:
I. The fixed costs in combined leverage include both operating fixed costs and financial fixed costs.
II. A marginal percentage change in revenue leads to a proportionate (equal percentage) change in EBT.
III. DTL can be mathematically written as Contribution divided by EBT.
Which of the above statements are correct?
(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

Oct/Nov 2006

52. In a standard statement of profit, what is the correct chronological order of deductions to arrive at Earnings Before Tax?
(A) Subtract Fixed Cost from Sales, subtract Variable Cost, subtract Interest.
(B) Subtract Variable Cost from Sales, subtract Fixed Cost, subtract Interest.
(C) Subtract Interest from Sales, subtract Variable Cost, subtract Fixed Cost.
(D) Subtract Variable Cost from Sales, subtract Interest, subtract Fixed Cost.

May/June 2021

53. Match the term in List I with its definition or meaning in List II:
List I: Term
P. Contribution
Q. EBIT
R. EBT
S. EAT
List II: Definition/Meaning
1. Earnings before interest and taxes
2. Earnings before tax
3. Sales minus variable costs
4. Earnings after tax
(A) P-1, Q-3, R-4, S-2
(B) P-2, Q-4, R-1, S-3
(C) P-3, Q-1, R-2, S-4
(D) P-4, Q-2, R-3, S-1

Oct/Nov 2010

54. Read the following statements and select the correct option:
I. A business with high fixed costs and low variable costs is considered to have low operating leverage.
II. Such a business is insensitive to changes in sales volume and volatility does not affect the firm's EBIT.
Which of the above statements is/are correct?
(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

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May/June 2005

55. Identify the correct pair representing the leverage and its corresponding formula.
(A) Degree of Total Leverage : Contribution / EBT
(B) Degree of Financial Leverage : Contribution

(B) Debt-to-Equity Ratio
(C) Degree of Operating Leverage
(D) Equity Multiplier

May/June 2016

43. Identify the correct pair outlining the relationship between firm leverage and break-even point.
(A) Firm with low leverage : Higher Break-even point
(B) Firm with high fixed cost : High degree of operating leverage
(C) Firm with high leverage : Lower Break-even point
(D) Firm with high fixed cost : Lower degree of operating leverage

Oct/Nov 2009

44. Match the financial components in List I with their nature in the mathematical derivation of leverage in List II:
List I: Financial components
P. Tax rate
Q. Variable cost per unit
R. Fixed operating cost
S. Interest
List II: Nature
1. Constant amount determining EBT from EBIT
2. Deducted from Sale Price to find Contribution per unit
3. Constant amount in refining EBIT formula
4. Constant when finding proportionality between EBT and EPS
(A) P-1, Q-4, R-2, S-3
(B) P-3, Q-1, R-4, S-2
(C) P-2, Q-3, R-1, S-4
(D) P-4, Q-2, R-3, S-1

May/June 2023

45. Read the following statements about calculating the Degree of Financial Leverage and select the correct option:
I. It establishes a correlation between operating profit and interest expense.
II. Interest expense is assumed to be a fully variable expense based on sales.
III. If interest expense is large relative to operating profit, a small decrease in EBIT results in a disproportionate decrease in EBT.
Which of the above statements are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2018

46. What primarily dictates the "optimal level" of leverage for a business?
(A) Eliminating all variable costs from the production process.
(B) A realistic cost-benefit estimate following efficient fund infusion.
(C) Achieving a Degree of Financial Leverage of exactly 1.
(D) Expanding operations regardless of the break-even point.

May/June 2007

47. Read the following statements and select the correct option:
I. The degree of total leverage is a measure of the sensitivity of cash flows to owners to changes in unit sales.
II. It is derived by combining a firm's degree of operating leverage and degree of financial leverage.
Which of the above statements is/are correct?
(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2025

48. Match the financial leverage calculation methods in List I with their corresponding formulas in List II:
List I: Financial leverage calculation methods
P. Debt-to-Assets ratio
Q. Debt-to-Equity ratio
R. Equity Multiplier
S. Interest Coverage ratio
List II: Formulas
1. Total assets / Total Equity
2. Total Debt / Total Assets
3. Total Debt / Total Equity
4. EBIT / Interest expense
(A) P-1, Q-4, R-2, S-3
(B) P-2, Q-3, R-1, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

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Oct/Nov 2013

36. Read the following statements regarding Operating Leverage and select the correct option:

I. It correlates fixed expenses except interest to profit.

II. A wholesaler with very low fixed costs but low contribution is highly susceptible to small drops in sales.

III. A business is considered to have high operating leverage if fixed costs exceed variable costs during the same period.

Which of the above statements are correct?

(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2015

37. What is the primary aim of equity shareholders in a business?

(A) Maximizing the return on investment as reflected in Earnings Per Share.
(B) To maximize the total debt of the company.
(C) To minimize the break-even point at all costs.
(D) To eliminate all fixed operating expenses.

Oct/Nov 2012

38. Match the situation regarding firm operations in List I with the behavior of Earnings Per Share (EPS) in List II:

List I: Operational situation

P. Operating at a level higher than break-even point
Q. Operating at break-even level
R. Operating lower than break-even point
S. No fixed interest charges

List II: EPS behavior

1. EPS and EBIT move in the same direction
2. EPS is zero or undefined leverage impact
3. EPS is negative
4. Percentage change in EPS equals percentage change in EBIT (DFL=1)

(A) P-2, Q-1, R-4, S-3
(B) P-3, Q-4, R-1, S-2
(C) P-4, Q-3, R-2, S-1
(D) P-1, Q-2, R-3, S-4

May/June 2011

39. Read the following statements and select the correct option:

I. Earnings Before Tax (EBT) is directly proportional to Earnings Per Share (EPS) as the tax rate and number of equity shares are constants.

II. A marginal change in EBT will be equal to the same change in EBIT because interest is assumed to be a fixed amount.

Which of the above statements is/are correct?

(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

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Oct/Nov 2020

40. Match the leverage concepts in List I with their corresponding formulas in List II:

List I: Leverage concepts

P. Degree of Financial Leverage
Q. Degree of Operating Leverage
R. Degree of Total Leverage
S. Break-even point (units)

List II: Formulas

1. Contribution / EBIT
2. EBIT / EBT
3. Fixed Cost / Contribution per unit
4. Contribution / EBT

(A) P-1, Q-2, R-4, S-3
(B) P-2, Q-1, R-4, S-3
(C) P-4, Q-3, R-1, S-2
(D) P-2, Q-4, R-1, S-3

May/June 2022

41. Read the following statements about the relationships in leverage and select the correct option:

I. A firm with high leverage generally has a higher break-even point.

II. High fixed cost leads to a lower degree of operating leverage.

III. A firm with low leverage has a lower break-even point.

Which of the above statements are correct?

(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

Oct/Nov 2023

42. Which metric is the most scientifically sound way to assess the susceptibility of a business to its level of operation?

(A) Interest Coverage Ratio

/ EBIT
(C) Degree of Operating Leverage : EBIT / EBT
(D) Equity Multiplier : Total Debt / Total Assets

Oct/Nov 2022

56. What serves as the pivot in the context of operating leverage?
(A) Fixed operating expenses
(B) Variable costs
(C) Fixed financial charges
(D) Total assets

May/June 2018

57. Read the following statements regarding the limits on borrowings and select the correct option:
I. As the ratio of debt in relation to equity rises, the lender may lend at a higher interest rate which affects additional value generation.
II. As borrowings increase, the cushion to absorb adverse business events increases.
III. The surplus through additional assets may actually be less than the cost of borrowings, resulting in a reduction in EPS.
Which of the above statements are correct?
(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

Oct/Nov 2016

58. Match the operational scenario in List I with the resulting Degree of Financial Leverage (DFL) status in List II:
List I: Operational scenario
P. No Fixed Interest charges
Q. Operating above break-even point
R. Operating at break-even level (EBT is nil)
S. Operating below break-even level
List II: DFL status
1. DFL is positive
2. DFL is undefined
3. DFL is 1
4. DFL is a negative number
(A) P-3, Q-1, R-2, S-4
(B) P-1, Q-3, R-4, S-2
(C) P-2, Q-4, R-1, S-3
(D) P-4, Q-2, R-3, S-1

May/June 2014

59. Read the following statements and select the correct option:
I. Financial leverage means enhancing Earnings Per Share without shareholders bringing money themselves but by borrowing.
II. A core assumption of financial leverage is that the cost of the borrowed funds will be more than the value added by the additional assets.
Which of the above statements is/are correct?
(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2007

60. Match the percentage change ratios in List I with the leverage metric they represent in List II:
List I: Percentage change ratios
P. Percentage change in EPS / Percentage change in EBIT
Q. Percentage change in EBIT / Percentage change in Sales
R. Percentage change in EBT / Percentage change in Sales
S. Total assets / Total Equity
List II: Leverage metric
1. Degree of Operating Leverage
2. Degree of Total Leverage
3. Degree of Financial Leverage
4. Equity Multiplier
(A) P-1, Q-4, R-3, S-2
(B) P-3, Q-1, R-2, S-4
(C) P-2, Q-3, R-1, S-4
(D) P-4, Q-2, R-4, S-1

May/June 2025

61. Read the following statements about the impact of risk and leverage and select the correct option:
I. Financial leverage reveals sensitivity of owners' cash flows to variations in operating cash flows.
II. Operating leverage reveals how sensitive operating cash flows are to fluctuations in sales.
III. Both types of leverage contribute to the risk connected with owners' future cash flows.
IV. Investment decisions primarily affect the capital structure.
V. Financing decisions primarily affect the capital structure.
Which of the above statements are correct?

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Oct/Nov 2007

18. When a business operates at the break-even level and Earnings Before Tax (EBT) is nil, what is the value of the Degree of Financial Leverage (DFL)?
(A) 0
(B) 1
(C) Negative
(D) Undefined

May/June 2025

19. Identify the correct statement concerning financial leverage as a double-edged sword.
(A) Achieving above optimal leverage eliminates all inherent business risks.
(B) A positive DFL means EPS and EBIT move in opposite directions always.
(C) In a small scenario, using leverage above optimal levels is easy to fix.
(D) It enhances equity returns but can eventually impact them negatively.

Oct/Nov 2019

20. What relationship exists between leverage and the break-even point?
(A) A firm with high leverage has a higher break-even point.
(B) A firm with low leverage has a higher break-even point.
(C) A firm with high leverage has a lower break-even point.
(D) There is no relationship between leverage and the break-even point.

May/June 2009

21. A firm experiencing a scenario where Earnings Before Tax (EBT) is nil exhibits all the following characteristics EXCEPT:
(A) Earnings Before Interest and Tax equals Fixed Interest.
(B) The firm is operating at the break-even level.
(C) The Degree of Financial Leverage is 1.
(D) The Degree of Financial Leverage is undefined.

Oct/Nov 2011

22. Which scientific figure is quoted stating, "Give me a point of support and I can lift the earth"?
(A) Isaac Newton
(B) Archimedes
(C) Albert Einstein
(D) Galileo

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May/June 2010

23. What is the primary assumption for financial leverage to add value to a business?
(A) The enterprise maintains zero fixed operating costs throughout the cycle.
(B) The corporate tax rate remains constant regardless of total borrowing.
(C) Shareholders provide proportionate capital alongside all borrowed funds.
(D) Return on assets exceeds the interest rate of the borrowed capital.

Oct/Nov 2024

24. Identify the incorrect statement about the behavior of the Degree of Financial Leverage (DFL).
(A) When there are no fixed interest charges, DFL is equal to 1.
(B) A negative DFL indicates the firm is operating lower than the break-even point.
(C) If interest expense is large relative to operating profit, a small decrease in EBIT results in a disproportionate decrease in EBT.
(D) When DFL is exactly equal to zero, financial leverage becomes relevant.

May/June 2017

25. Identify the correct statement about a firm operating below the break-even level.
(A) Its Earnings Before Tax (EBT) is positive.
(B) Its Degree of Financial Leverage (DFL) will be a negative number as EBT is negative.
(C) Its Degree of Financial Leverage (DFL) will be undefined.
(D) Its Earnings Per Share (EPS) will move in the same direction as Earnings Before Interest and Tax (EBIT).

Oct/Nov 2005

26. How is the Degree of Total Leverage (DTL) fundamentally defined?
(A) The aggregate sum of financial leverage and operating leverage within the firm.
(B) The net difference between the degree of operating leverage and financial leverage.
(C) The measure of sensitivity of operating cash flows to fluctuations in gross sales.
(D) The sensitivity of owners' cash flows to variations in unit sales volume.

Oct/Nov 2005

68. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option:
Assertion (A): A negative Degree of Financial Leverage (DFL) indicates that the firm is operating at a level higher than the break-even point.
Reason (R): When a business operates below the break-even level, EBT is negative, resulting in a negative DFL.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2020

69. Continuing with the scenario for Company Alpha, if fixed operating costs are Rs. 60,000, what is the Earnings Before Interest and Tax (EBIT)?
(A) Rs. 60,000
(B) Rs. 40,000
(C) Rs. 80,000
(D) Rs. 1,20,000

Oct/Nov 2015

70. Read the following statements about the metrics used in Combined Leverage and select the correct option:
I. DTL is the product of DFL and DOL.
II. The fixed costs include operating fixed costs and financial fixed costs.
III. A 10% fall in revenue may decrease EPS by more than 10% due to disproportionate changes.
IV. DTL is calculated as Percentage change in EBT / Percentage change in Sales.
V. DTL can be written as Contribution / EBT.
Which of the above statements are correct?
(A) I, II, III, and IV only
(B) I, II, IV, and V only
(C) II, III, IV, and V only
(D) I, II, III, IV, and V

May/June 2013

71. Based on Company Gamma's EBIT increase, what will be the percentage change in EBIT if an anticipated 10% increase in sales revenue occurs?
(A) 25%
(B) 10%
(C) 20%
(D) 50%

Oct/Nov 2021

72. Read the following statements about DFL calculation and select the correct option:
I. DFL formula is Percentage change in EPS / Percentage change in EBIT.
II. Delta EPS / EPS is equal to Delta EBT / EBT because tax rate is constant.
III. Marginal change in EBT equals marginal change in EBIT because interest is constant.
IV. DFL can be rewritten directly as Sales / EBIT.
Which of the above statements are correct?
(A) I, II, and III only
(B) I, II, and IV only
(C) II, III, and IV only
(D) I, III, and IV only

May/June 2024

73. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option:
Assertion (A): Financial leverage is considered relevant only when DFL is less than one.
Reason (R): The greater the fraction of fixed operating costs, the more sensitive operating cash flows are to variations in sales.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2008

74. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option:
Assertion (A): When the business is operating at the break-even level, the Degree of Financial Leverage is undefined.
Reason (R): At the break-even level, EBIT is exactly equal to Fixed Interest, making EBT nil.
(A) Both Assertion (A) and Reason (R) are true,

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leverage involves dividing earnings before interest and taxes by zero. Since division by zero is mathematically impossible, the resulting value of the degree of financial leverage is considered undefined, representing an infinite sensitivity at that point.

19. (D) It enhances equity returns but can eventually impact them negatively.
Financial leverage is described as a double-edged sword because while it can significantly enhance returns on equity during profitable periods, it can also impact them negatively if used excessively. Beyond an optimal level, the increased interest burden and financial risk may outweigh the benefits of borrowing, potentially leading to a sharp decline in earnings per share or even insolvency.

20. (A) A firm with high leverage has a higher break-even point.
A direct relationship exists between the level of leverage and the break-even point of a firm. High leverage, characterized by significant fixed operating or financial costs, necessitates a higher volume of sales to cover these obligations. Consequently, firms with high leverage face a higher break-even point, making them more vulnerable to losses if sales targets are not consistently met.

21. (C) The Degree of Financial Leverage is 1.
When earnings before tax are nil, the firm is at its financial break-even point where EBIT equals fixed interest charges. In this state, the degree of financial leverage is undefined due to the zero denominator in its formula. It is incorrect to state that the DFL is one, as a value of one only occurs when interest is zero.

22. (B) Archimedes
The famous quote regarding the power of a lever and a point of support is attributed to the ancient Greek mathematician and physicist Archimedes. This scientific principle of using a fulcrum to lift heavy objects with minimal effort serves as the fundamental analogy for financial and operating leverage, where fixed costs act as the pivot to magnify business returns.

23. (D) Return on assets exceeds the interest rate of the borrowed capital.
For financial leverage to successfully add value to a business and increase shareholder returns, the return on assets must exceed the interest rate of the borrowed funds. If the cost of debt is lower than the profits generated by the assets purchased with that debt, the surplus increases the earnings available to equity owners, thereby justifying the borrowing strategy.

24. (D) When DFL is exactly equal to zero, financial leverage becomes relevant.
It is incorrect to state that financial leverage becomes relevant only when the degree of financial leverage is exactly zero. In fact, financial leverage is considered relevant when the degree of financial leverage is greater than one. A DFL of one indicates zero interest charges, meaning no financial leverage is being utilized to magnify the firm's earnings or risks.

25. (B) Its Degree of Financial Leverage (DFL) will be a negative number as EBT is negative.
When a firm operates below its break-even level, the resulting earnings before tax are negative, representing a loss. Consequently, the degree of financial leverage is expressed as a negative number. This indicates that the firm is failing to cover its fixed costs, and any further decline in operating income will continue to disproportionately increase the magnitude of the losses.

26. (D) The sensitivity of owners' cash flows to variations in unit sales volume.
The degree of total leverage is fundamentally defined as a measure of the sensitivity of the cash flows available to owners in response to variations in unit sales volume. It accounts for the combined magnifying effect of both fixed operating costs and fixed financial charges. This metric provides a comprehensive view of the total risk and potential reward for shareholders.

27. (A) Profit-Volume ratio
Common methods to calculate financial leverage include the debt-to-equity ratio, interest coverage ratio, and the equity multiplier, all of which assess the firm's debt obligations. The profit-volume ratio, however, is a measure of operating profitability and contribution margin relative

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May/June 2011

81. Company Gamma operates with a Contribution of Rs. 5,00,000, an EBIT of Rs. 2,00,000, and pays Rs. 1,00,000 as interest. Calculate the Degree of Total Leverage (DTL) for Company Gamma.
(A) 2.50 times
(B) 3.50 times
(C) 5.00 times
(D) 7.50 times

Oct/Nov 2020

82. Read the following statements detailing the nature of leverage and select the correct option:
I. The simplest example of a lever is a see-saw.
II. Financial leverage utilizes borrowed funds to enhance return on investment of equity investors.
III. Operating leverage applies the principle of leverage to finance functions.
IV. An optimal level of leverage is a factual estimate of cost versus benefit.
V. A light-weight child on a see-saw can lift a heavier child if positioned further from the fulcrum.
Which of the above statements are correct?
(A) I, II, IV, and V only
(B) I, II, III, and IV only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

May/June 2022

83. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option:
Assertion (A): Financial leverage is a strategy to use borrowed funds to enhance return on the investment of equity investors.
Reason (R): The cost of the borrowed funds is assumed to be less than the value added by the additional assets purchased through the borrowing.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2023

84. Calculate the Degree of Operating Leverage (DOL) for Company Alpha based on the data provided in the previous questions.
(A) 1.50 times
(B) 2.50 times
(C) 2.00 times
(D) 3.00 times

May/June 2016

85. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option:
Assertion (A): A marginal change in EBT is equal to the same change in EBIT.
Reason (R): Interest is assumed to be a fixed amount when calculating financial leverage.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2009

86. Read the following statements regarding Break-Even Point (BEP) and select the correct option:
I. BEP can be calculated as Fixed Cost divided by Contribution.
II. Firms with high leverage usually exhibit a higher break-even point.
III. A firm with low fixed costs exhibits a lower break-even point.
IV. Operating leverage has no direct relationship with the break-even point.
Which of the above statements are correct?
(A) I, II, and III only
(B) I, II, and IV only
(C) II, III, and IV only
(D) I, III, and IV only

May/June 2023

87. What is the Degree of Financial Leverage (DFL) for Firm Beta based on the information that it operates with zero debt?
(A) 0 times
(B) 1.00 times
(C) 1.50 times
(D) Undefined

ANSWERS

1. (D) A see-saw
   The see-saw is the most intuitive physical representation of a lever. It consists of a rigid plank pivoting on a fulcrum. When force is applied at one end, it magnifies the effort to lift a load at the other. This principle mirrors how financial or operating leverage magnifies small changes into larger outcomes within a business structure.

2. (C) It will remain in profit even if the sales level comes down substantially.
   Businesses with minimal fixed costs and low contribution margins possess low operating leverage. This financial structure makes the firm less sensitive to fluctuations in sales volume. Consequently, even a significant decrease in revenue does not lead to immediate losses, allowing the company to remain profitable at much lower levels of operation compared to high-leverage firms during the same period.

3. (C) Contribution margin divided by Earnings Before Interest and Taxes.
   The degree of operating leverage represents the ratio of contribution margin to earnings before interest and taxes. This metric quantifies the sensitivity of operating income to changes in sales revenue. It indicates how effectively fixed operating costs are utilized to magnify EBIT. A higher ratio suggests that small percentage changes in sales will cause larger percentage changes in profits.

4. (C) Fixed costs in combined leverage include only operating fixed costs.
   Combined leverage incorporates both operating fixed costs and financial fixed costs to measure total risk. It is incorrect to claim it includes only operating costs because it represents the aggregate effect of all fixed charges on earnings per share. This metric illustrates how sales fluctuations translate into disproportionate changes in taxable income by utilizing both types of fixed expenditures simultaneously.

5. (B) Higher debt reduces the financial cushion to absorb adverse business events.
   While borrowing capital can enhance the return on equity, it simultaneously increases financial risk. High levels of debt reduce the available financial cushion needed to absorb unexpected adverse business events or economic downturns. Therefore, owners often set prudential limits on borrowing to maintain solvency and ensure the organization can survive periods of low profitability or restricted cash flow cycles.

6. (B) Interest
   Operating leverage specifically focuses on the relationship between sales and operating income by accounting for fixed production costs. While expenses like rent, depreciation, and administrative salaries are considered operating fixed costs, interest is categorized as a financial fixed cost. Therefore, interest is excluded from operating leverage calculations, as it pertains to the firm's financing decisions rather than its operations.

7. (B) Using operational fixed costs to magnify the impact of sales changes on operating income.
   Operating leverage involves the strategic use of fixed operating costs to magnify the impact of sales fluctuations on a company's operating income. By maintaining a high proportion of fixed costs relative to variable costs, a business ensures that any increase in revenue results in a significantly higher percentage growth in earnings before interest and taxes during the operating cycle.

8. (B) EBT is directly proportional to EPS given constant tax and share counts.
   Earnings before tax is directly proportional to earnings per share provided that the corporate tax rate and the total number of outstanding equity shares remain constant. Under these conditions, any percentage growth or decline in taxable income translates directly into an equivalent percentage change in the earnings available to each individual shareholder, maintaining a steady linear relationship between these metrics.

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(B) It would increase.
(C) It would remain unchanged.
(D) It would become zero.

May/June 2005

97. At a sales volume of 12,000 units, what is the total Contribution generated by Enterprise Epsilon?
(A) Rs. 9,60,000
(B) Rs. 1,60,000
(C) Rs. 8,00,000
(D) Rs. 14,40,000

Oct/Nov 2022

98. With the EBT computed in the subsequent year for Delta Tech, what is the nature of its Degree of Financial Leverage (DFL)?
(A) Positive integer
(B) Negative number
(C) Undefined
(D) Exactly 1

May/June 2018

99. Under Delta Tech's current circumstances where EBIT equals fixed interest expenses, what is the computed value of the Degree of Financial Leverage (DFL)?
(A) 0
(B) 1
(C) Negative
(D) Undefined

Oct/Nov 2016

100. Given that Enterprise Epsilon additionally incurs Rs. 1,00,000 as fixed financial charges, calculate the Degree of Financial Leverage (DFL) at the 12,000 unit sales volume.
(A) 1.67 times
(B) 2.00 times
(C) 6.00 times
(D) 2.67 times

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Oct/Nov 2018

88. Read the following statements regarding the financial structuring of a firm and select the correct option:

I. Owners aim to enhance EPS without bringing additional money themselves.
II. Lenders are always willing to lend irrespective of the debt-to-equity ratio.
III. Cushion to absorb adverse events decreases as borrowings increase.
IV. If borrowed funds yield less value than their cost, EPS will decrease.
V. Prudential limits on borrowing are imposed by owners.

Which of the above statements are correct?
(A) I, II, III, and IV only
(B) I, II, IV, and V only
(C) I, III, IV, and V only
(D) II, III, IV, and V only

May/June 2007

89. Based on a scenario for Company Alpha, if sales are 4,000 units at Rs. 50 per unit and the variable cost is 40% of the selling price, what is the Contribution amount?
(A) Rs. 60,000
(B) Rs. 1,20,000
(C) Rs. 80,000
(D) Rs. 1,40,000

Oct/Nov 2025

90. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option:
Assertion (A): A firm with high fixed costs, like a hospital, is considered to have low operating leverage.
Reason (R): A business is sensitive to changes in sales volume and volatility may affect the firm's EBIT.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2012

91. Enterprise Epsilon has Fixed Operating Costs of Rs. 8,00,000. It sells units at Rs. 200 each with a variable cost of Rs. 120 per unit. Calculate the Break-Even Point (BEP) in units based solely on fixed operating costs.
(A) 4,000 units
(B) 10,000 units
(C) 8,000 units
(D) 12,000 units

Oct/Nov 2014

92. Delta Tech reports an Earnings Before Interest and Tax (EBIT) of Rs. 1,50,000. Its fixed interest expenses are Rs. 1,50,000. What is the Earnings Before Tax (EBT) for Delta Tech?
(A) Rs. 1,50,000
(B) Rs. 75,000
(C) Nil
(D) Negative Rs. 1,50,000

May/June 2019

93. Based on Company Gamma's Degree of Total Leverage, what will be the percentage change in Earnings Before Tax (EBT) due to the 10% increase in revenue?
(A) 10%
(B) 25%
(C) 40%
(D) 50%

Oct/Nov 2006

94. At the sales volume of 12,000 units, calculate Enterprise Epsilon's Degree of Operating Leverage (DOL).
(A) 2.67 times
(B) 4.00 times
(C) 6.00 times
(D) 5.00 times

May/June 2021

95. In the subsequent year, Delta Tech's EBIT drops to Rs. 1,00,000 while the fixed interest expenses remain at Rs. 1,50,000. What will be the new EBT?
(A) Negative Rs. 50,000
(B) Rs. 50,000
(C) Nil
(D) Negative Rs. 1,50,000

Oct/Nov 2010

96. If Company Gamma's fixed operating costs were to increase while sales and variable costs remain constant, what would be the impact on its Degree of Operating Leverage?
(A) It would decrease.

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9. (B) A business with high operating leverage is immune to changes in sales volume.
It is false to suggest that high operating leverage makes a business immune to sales volume changes. In reality, high operating leverage increases sensitivity to sales fluctuations. While it can magnify profits during periods of growth, it also poses a significant risk during downturns, as fixed costs must still be covered regardless of the total revenue generated by sales.

10. (C) EBIT / Interest expense
The interest coverage ratio is a financial metric used to determine how easily a company can pay interest on its outstanding debt. It is calculated by dividing the earnings before interest and taxes by the total interest expense for a specific period. This ratio measures the safety margin a firm has to meet its debt obligations from operating profits.

11. (D) Low impact of sales volatility on the firm's EBIT.
High operating leverage is marked by fixed costs that significantly exceed variable costs, leading to a higher break-even point and increased sensitivity to sales changes. It is incorrect to say it results in a low impact of sales volatility on EBIT. Instead, it ensures that even minor fluctuations in revenue cause substantial changes in the firm's operating income.

12. (C) Total Assets divided by Total Equity.
Within the framework of DuPont analysis, the equity multiplier is a financial ratio that measures a company's financial leverage. It is defined as total assets divided by total equity. This ratio indicates the portion of a firm's assets that are financed by its shareholders. A higher multiplier reflects a greater use of debt to acquire necessary company operating assets.

13. (A) DTL can be written as Contribution divided by Earnings Before Tax (EBT).
The degree of total leverage is mathematically expressed as the contribution margin divided by earnings before tax. This ratio measures the total sensitivity of earnings per share to changes in sales volume. It effectively combines the impacts of both operating and financial leverage, illustrating how fixed costs at both levels magnify the final returns available to the company's shareholders.

14. (C) The firm is operating at a level higher than the break-even point.
A positive degree of financial leverage indicates that a business is currently operating at a level higher than its financial break-even point. This means the earnings before interest and taxes are sufficient to cover all fixed interest charges, resulting in positive earnings before tax. In this state, financial leverage works to enhance the returns provided to the equity shareholders.

15. (D) Sales volume
In establishing the direct proportionality between earnings before tax and earnings per share, the tax rate, number of equity shares, and their face value are typically treated as constants. However, sales volume is a variable factor that directly impacts earnings levels. Changes in sales volume lead to fluctuations in EBT, which subsequently change the resulting earnings per share figure.

16. (A) Ratio of percentage change in Earnings Per Share to percentage change in Earnings Before Interest and Tax.
The degree of financial leverage is defined as the ratio of the percentage change in earnings per share to the percentage change in earnings before interest and taxes. This metric quantifies how sensitive a firm's taxable income and share earnings are to fluctuations in its operating profit. It measures the magnifying effect of fixed financial costs on shareholder returns.

17. (A) Lower fixed cost correlates with a high degree of operating leverage.
Lower fixed costs generally correlate with a lower degree of operating leverage rather than a high one. Operating leverage is driven by the proportion of fixed costs in the cost structure. When fixed costs are high, the break-even point increases, and the business becomes more sensitive to sales changes. Conversely, lower fixed costs provide a more stable, lower-risk financial structure.

18. (D) Undefined
When a business operates exactly at the break-even level, earnings before tax become nil. In this scenario, the formula for the degree of financial

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and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2006

75. If Firm Beta calculates its Degree of Total Leverage (DTL) using the previously determined DOL and DFL values, what will be the resulting value?
(A) 1.00 times
(B) 3.00 times
(C) 4.00 times
(D) 2.00 times

Oct/Nov 2017

76. Read the following statements about the variables used in leverage calculations and select the correct option:
I. Sales quantity minus variable cost per unit multiplied by unit sales gives Total Fixed Costs.
II. Contribution is obtained by deducting variable costs from sales.
III. EBIT is obtained by deducting fixed costs from Contribution.
IV. EBT is obtained by deducting Interest from EBIT.
Which of the above statements are correct?
(A) I, II, and III only
(B) I, II, and IV only
(C) II, III, and IV only
(D) I, II, III, and IV

May/June 2008

77. If Company Alpha has borrowed Rs. 4,00,000 at a 5% annual interest rate, calculate its Degree of Financial Leverage (DFL).
(A) 1.00 times
(B) 2.00 times
(C) 3.00 times
(D) 1.50 times

Oct/Nov 2013

78. Read the following statements regarding the calculation of operating leverage and select the correct option:
I. Sales is a product of units sold and Sale Price per unit.
II. Contribution is the difference between Sales and Variable Cost.
III. EBIT is Contribution minus Fixed Cost.
IV. Degree of Operating Leverage is calculated as Contribution divided by EBIT.
V. When DOL is more than one, operating leverage is relevant.
Which of the above statements are correct?
(A) I, III, IV, and V only
(B) I, II, IV, and V only
(C) II, III, IV, and V only
(D) I, II, III, IV, and V

May/June 2015

79. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option:
Assertion (A): If a 10% increase in revenue occurs in a firm with combined leverage, EBT and EPS may increase by 15%.
Reason (R): The marginal percentage change in revenue leads to a disproportionate percentage change in EBT due to fixed costs.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2012

80. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option:
Assertion (A): The Degree of Total Leverage (DTL) is a product of both financial and operating leverages.
Reason (R): Fixed costs in the calculation of total leverage only include financial fixed costs like interest.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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to sales. Therefore, it is not used as a metric for assessing financial leverage or the impact of debt.

28. (A) A hospital
A hospital is a classic example of a business with high fixed costs and high operating leverage. Such institutions require massive upfront investments in infrastructure, specialized medical equipment, and permanent staff salaries. These costs remain constant regardless of patient volume. Consequently, small changes in the number of patients served can lead to significant fluctuations in the hospital's operating profit.

29. (C) Interest Coverage ratio is calculated as Interest expense / EBIT.
The statement regarding the interest coverage ratio is incorrect because the ratio is properly calculated as earnings before interest and taxes divided by interest expense. Swapping these components to divide interest by EBIT is mathematically wrong for this specific metric. This ratio is intended to show how many times a firm can cover its interest obligations using operating profits.

30. (D) They act as a pivot to magnify operating cash flow sensitivity to sales.
Fixed operating expenses act as a pivot or fulcrum in the context of operating leverage. They remain constant despite changes in production or sales volume, creating sensitivity in operating income. Because these costs are fixed, any percentage increase in revenue leads to a magnified percentage increase in operating cash flow, effectively leveraging the business's capacity to generate higher profits.

31. (C) Revenue → EBIT → EBT → EPS
When analyzing combined leverage, the chronological sequence begins with a change in sales revenue. This change first impacts the earnings before interest and taxes due to operating leverage. Subsequently, the change in EBIT affects the earnings before tax through financial leverage. Finally, the fluctuation in EBT determines the resulting change in the earnings per share for the firm's equity shareholders.

32. (B) EBT : EBIT minus Fixed Cost
The pair defining EBT is incorrect because earnings before tax is calculated by subtracting interest expense from earnings before interest and taxes, not by subtracting fixed costs. Fixed costs are already deducted from the contribution margin to arrive at EBIT. Therefore, subtracting them again from EBIT would be a double deduction and does not represent the correct accounting flow.

33. (B) It can enhance the return on equity but, beyond a point, affect it adversely.
Financial leverage is termed a double-edged sword because of its dual impact on shareholder value. While it has the capacity to enhance the return on equity by using borrowed funds at a cost lower than the return on assets, it also increases financial risk. Beyond an optimal threshold, the burden of interest and debt can negatively affect profitability.

34. (C) Both I and II
Financial leverage is considered relevant whenever the degree of financial leverage exceeds one, indicating the presence of fixed interest charges. Additionally, a positive DFL confirms that the firm is operating above its break-even point, where operating profits are sufficient to cover debt obligations. Both statements accurately reflect how financial leverage magnifies the sensitivity of earnings to changes in income.

35. (A) P-1, Q-2, R-3, S-4
Higher leverage and high fixed costs both lead to a higher break-even point and a high degree of operating leverage. Conversely, firms with low leverage and low fixed costs enjoy a lower break-even point and a lower degree of operating leverage. These pairings demonstrate how a firm's cost structure directly dictates its operational risk profile and sensitivity to sales.

36. (C) I and III only
Operating leverage correlates profit to fixed expenses excluding interest. A business is deemed to have high operating leverage when fixed costs exceed variable costs, increasing profit sensitivity. However, the statement about wholesalers is often context-dependent; generally, those with low fixed costs are less susceptible to sales drops. Therefore, only the first and third statements provided accurately describe leverage mechanics.

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37. (A) Maximizing the return on investment as reflected in Earnings Per Share.
The primary objective of equity shareholders in a business is to maximize their return on investment. This return is most clearly reflected in the earnings per share metric. By utilizing strategies like financial leverage, shareholders seek to increase the net income available to them without necessarily increasing their own capital contribution, thereby enhancing the overall profitability of their holdings.

38. (D) P-1, Q-2, R-3, S-4
When operating above break-even, EPS and EBIT move together. At the break-even level, EPS is zero. Operating below break-even results in negative EPS. If there are no fixed interest charges, the percentage change in EPS equals the percentage change in EBIT, meaning the degree of financial leverage is one. These scenarios illustrate the varying impact of debt on shareholder returns.

39. (C) Both I and II
Earnings before tax is directly proportional to earnings per share because the tax rate and number of equity shares are usually constant. Furthermore, a marginal change in EBT will equal the same absolute change in EBIT since interest is a fixed amount. Both statements are correct, as they define the stable relationship between operating income, taxable income, and earnings.

40. (B) P-2, Q-1, R-4, S-3
The degree of financial leverage is EBIT divided by EBT, while the degree of operating leverage is contribution divided by EBIT. Total leverage is the product of these two, simplified as contribution divided by EBT. Finally, the break-even point in units is calculated by dividing total fixed costs by the contribution per unit. These formulas are fundamental to quantitative analysis.

41. (B) I and III only
High leverage generally results in a higher break-even point because more revenue is required to cover fixed costs. Similarly, low leverage results in a lower break-even point. However, it is incorrect to say high fixed costs lead to lower operating leverage; high fixed costs actually increase the degree of operating leverage by magnifying the impact of sales changes on EBIT.

42. (C) Degree of Operating Leverage
The degree of operating leverage is the most scientifically sound metric for assessing how susceptible a business is to its level of operation. It specifically measures the sensitivity of earnings before interest and taxes to changes in sales volume. A high degree of operating leverage indicates that small changes in sales will result in large fluctuations in operating profit.

43. (B) Firm with high fixed cost : High degree of operating leverage
A firm with high fixed costs inherently possesses a high degree of operating leverage. This is because fixed costs remain static regardless of production volume, ensuring that any increase in sales revenue results in a disproportionately larger increase in operating income. This relationship forms the core of operating leverage analysis, highlighting the sensitivity of profits to the firm's cost structure.

44. (D) P-4, Q-2, R-3, S-1
The tax rate and number of shares are constants used when finding the proportionality between EBT and EPS. Variable cost per unit is deducted from price to find unit contribution. Fixed operating costs are constants in the EBIT formula. Interest is a constant amount that determines the difference between EBIT and EBT. These components collectively define a leveraged financial structure.

45. (C) I and III only
The degree of financial leverage establishes a correlation between operating profit and interest expense. When interest is large relative to operating profit, small decreases in EBIT cause disproportionate drops in EBT. However, the assumption that interest is a fully variable expense is incorrect; interest is a fixed financial charge. Therefore, only the first and third statements accurately describe DFL mechanics.

46. (B) A realistic cost-benefit estimate following efficient fund infusion.
The optimal level of leverage for any business is determined by a realistic cost-benefit analysis following a fund infusion. It represents the point where the additional value generated by borrowed funds most effectively exceeds the cost of borrowing. This balance ensures that the

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return on equity is maximized while maintaining a level of financial risk that is manageable.

47. (C) Both I and II
The degree of total leverage measures the sensitivity of owners' cash flows to changes in unit sales. It is derived by combining the firm's degree of operating leverage and its degree of financial leverage. Both statements are correct, as total leverage illustrates the cumulative effect of all fixed costs on the final earnings available to the shareholders after meeting all obligations.

48. (B) P-2, Q-3, R-1, S-4
Debt-to-assets is total debt divided by total assets. Debt-to-equity is total debt divided by total equity. The equity multiplier is total assets divided by total equity. The interest coverage ratio is calculated as EBIT divided by interest expense. These ratios provide different perspectives on a firm's financial health, solvency, and the extent to which it utilizes debt.

49. (A) DFL is less than 1 : Operating above the break-even point
The statement that a DFL less than one occurs when operating above the break-even point is incorrect. In standard financial scenarios with positive interest, the degree of financial leverage is always greater than or equal to one when the firm is profitable. A DFL between zero and one is not typical in standard leverage analysis involving fixed interest charges.

50. (C) P-1, Q-2, R-3, S-4
Fixed operating expenses influence the sensitivity of operating cash flows to sales. Fixed financial charges impact the sensitivity of owners' cash flows relative to operating cash flows. Combined fixed costs determine the overall sensitivity of cash flows to units sold. Finally, a constant tax rate and share count ensure that EPS is directly proportional to EBT.

51. (B) I and III only
Combined leverage includes both operating and financial fixed costs. The degree of total leverage is mathematically expressed as the contribution divided by earnings before tax. However, it is incorrect to say a change in revenue leads to a proportionate change in EBT; the presence of fixed costs ensures that the change in EBT is magnified relative to sales.

52. (B) Subtract Variable Cost from Sales, subtract Fixed Cost, subtract Interest.
To arrive at earnings before tax in a standard profit statement, one must first subtract variable costs from total sales revenue to determine the contribution margin. Next, fixed operating costs are subtracted from the contribution to find the earnings before interest and taxes. Finally, interest expense is deducted from EBIT to reach the final figure for earnings before tax.

53. (C) P-3, Q-1, R-2, S-4
Contribution is defined as sales minus variable costs. EBIT represents earnings before interest and taxes. EBT is the earnings before tax, while EAT stands for earnings after tax. These definitions provide the necessary sequence for understanding how a company transitions from gross revenue to the final net profit available to its owners, accounting for all costs and obligations.

54. (D) Neither I nor II
A business with high fixed costs and low variable costs actually possesses high operating leverage, not low. Furthermore, such a business is highly sensitive to changes in sales volume, and volatility significantly affects the firm's EBIT. Since both statements provided in the question are fundamentally incorrect regarding the nature of operating leverage, neither of them can be considered correct.

55. (A) Degree of Total Leverage : Contribution / EBT
The degree of total leverage is correctly expressed by the formula of contribution divided by earnings before tax. This ratio represents the total magnification effect of both operating and financial fixed costs. Other pairs are incorrect because the DFL formula is EBIT divided by EBT, and the DOL formula is contribution divided by EBIT, while the equity multiplier is assets over equity.

56. (A) Fixed operating expenses
In the context of operating leverage, fixed operating expenses serve as the pivot or fulcrum. These expenses do not change with the level of output or sales, creating a structure where any increase in revenue beyond the break-even point

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(B) Variable Cost
(C) Fixed Cash Cost
(D) Interest

May/June 2013

29. Identify the incorrect statement regarding the principles of estimating project cash flows.
(A) The separation principle means separating assets for servicing cost of it.
(B) The incremental principle means estimating separately fixed versus variable cost.
(C) Discounting pre-tax flows ensures the highest level of reliability.
(D) The consistency principle is the fourth principle to be kept in mind.

Oct/Nov 2021

30. The situation of "Multiple IRRs" typically arises when:
(A) The project requires a very high and non-recoverable initial outlay
(B) The expected rate of return is strictly subjective for the firm
(C) The cash flows are evenly distributed over the entire life of the project
(D) The project has non-conventional or interruptive cash flows

May/June 2024

31. Arrange the following sequence of steps to calculate Cash Inflow After Tax (CFAT) starting from Sales Value in the correct order:
I. Deduct Variable Cost to find Contribution
II. Add Depreciation to Earning After Tax
III. Deduct Fixed Cash Cost and Depreciation to find Earning Before Tax
IV. Deduct Tax from Earning Before Tax to find Earning After Tax
(A) I, III, IV, II
(B) I, II, III, IV
(C) III, I, IV, II
(D) IV, III, I, II

Oct/Nov 2008

32. Identify the INCORRECT pair regarding cost analysis components.
(A) Installation cost - Direct manpower cost logistics, time and motion study
(B) Capitalization process - Credited to asset and debited to Expenditure during Construction
(C) Other cost - General operating and administration cost during project setup
(D) Cost versus recoverable duties - Input Tax Credit (ITC) mechanism

May/June 2006

33. When considering the "Life span of the productive assets," what is the primary risk if the life span is too long?
(A) The company will have to go for frequent replacement disrupting production
(B) High repair costs and being saddled with outdated technology
(C) The input tax credit will be permanently lost for the entire organization
(D) The working capital requirements will drastically decrease over the period

Oct/Nov 2017

34. Consider the following statements regarding investment decisions:
I. Equivalent Annual Costs (EAC) helps compare the cost effectiveness of assets with identical lifespans only.
II. The NPV method can be used to select between mutually exclusive projects by selecting the one with the higher NPV.
Which of the above statement(s) is/are correct?
(A) Only Statement I is correct
(B) Only Statement II is correct
(C) Both statements are correct
(D) Neither statement is correct

May/June 2008

35. Match the Investment Appraisal Method in List I with its defining characteristic in List II.
List I: (Method)
P. Payback Period
Q. ARR
R. NPV
S. MIRR
List II: (Characteristic)
1. Profit centric, uses limited accounting data
2. Resolves multiple rates issue, finds single rate by terminal value
3. Takes time value of money into account, surplus at end
4. Identifies period to recover initial investment, ignores flows beyond
(A) P-4, Q-1, R-3, S-2
(B) P-1, Q-2, R-4, S-3
(C) P-3, Q-4, R-2, S-1
(D) P-2, Q-3, R-1, S-4

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in earnings before interest and taxes will result in an identical percentage change in earnings per share. There is no magnifying effect from debt, so the shareholder returns move in perfect unison with operating profits.

67. (A) I, II, and III only
DFL is one when there are no interest charges, and it is undefined when EBT is zero at the break-even point. A negative DFL indicates operating below break-even. While a positive DFL usually means EBIT and EPS move together, this is common for all positive leverage scenarios. Therefore, the first three statements provide the most specific and accurate rules for DFL.

68. (D) Assertion (A) is false, but Reason (R) is true.
The assertion that a negative degree of financial leverage indicates operating above break-even is false. Conversely, the reason is true because a business operating below break-even generates negative earnings before tax, which mathematically results in a negative degree of financial leverage. This negative value signifies that the firm is in a loss-making position and failing to cover its fixed costs.

69. (A) Rs. 60,000
For Company Alpha, the total sales revenue is Rs. 2,00,000, calculated as 4,000 units at Rs. 50 each. The variable cost is 40% of sales, which is Rs. 80,000, leaving a contribution of Rs. 1,20,000. Subtracting the fixed operating costs of Rs. 60,000 from this contribution results in an earnings before interest and tax of exactly Rs. 60,000.

70. (D) I, II, III, IV, and V
All five statements regarding combined leverage are correct. DTL is the product of DFL and DOL and includes both operating and financial fixed costs. It measures how a percentage change in sales leads to a magnified change in EBT and EPS. The formula of contribution divided by EBT provides the same result as multiplying the individual degrees of leverage.

71. (A) 25%
Company Gamma has a contribution of Rs. 5,00,000 and an EBIT of Rs. 2,00,000, resulting in a degree of operating leverage of 2.5 times. If sales revenue increases by 10%, the percentage change in EBIT is found by multiplying the sales increase by the DOL. Therefore, a 10% increase in sales leads to a 25% increase in EBIT.

72. (A) I, II, and III only
The DFL is the ratio of percentage changes in EPS to EBIT. Since the tax rate and interest are constant, the change in EPS is proportional to the change in EBT, and the marginal change in EBT equals the change in EBIT. However, DFL is not Sales divided by EBIT; it is EBIT divided by EBT. Thus, only the first three statements are correct.

73. (D) Assertion (A) is false, but Reason (R) is true.
The assertion that financial leverage is relevant only when DFL is less than one is false; it is relevant when DFL is greater than one. However, the reason is true as it correctly states that a higher fraction of fixed operating costs increases the sensitivity of operating cash flows to sales variations. The two statements discuss different leverage types independently.

74. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
When a business operates at its break-even level, the degree of financial leverage becomes undefined. This occurs because the earnings before interest and taxes are exactly equal to the fixed interest charges, which makes the earnings before tax zero. Since the DFL formula requires dividing by EBT, division by zero results in an undefined value, confirming both statements.

75. (D) 2.00 times
Firm Beta has a degree of operating leverage of 2.00 times and a degree of financial leverage of 1.00 times because it carries no debt. The degree of total leverage is calculated by multiplying the DOL and the DFL. Therefore, multiplying 2.00 by 1.00 results in a degree of total leverage of 2.00 times for Firm Beta in this specific scenario.

76. (C) II, III, and IV only
Contribution is determined by subtracting variable costs from sales revenue. EBIT is then found by subtracting fixed operating costs from that contribution. Finally, EBT is calculated by deducting interest from EBIT. Statement I is incorrect because the described calculation does not give total fixed costs. Therefore, only

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statements II, III, and IV accurately describe the sequence of variables used in calculations.

77. (D) 1.50 times
Company Alpha has an EBIT of Rs. 60,000. It has borrowed Rs. 4,00,000 at a 5% interest rate, resulting in an annual interest expense of Rs. 20,000. Subtracting this interest from the EBIT gives an EBT of Rs. 40,000. Dividing the EBIT of Rs. 60,000 by the EBT of Rs. 40,000 results in a degree of financial leverage of 1.50 times.

78. (D) I, II, III, IV, and V
All five statements provided are correct regarding operating leverage. Sales are indeed units multiplied by price, and contribution is sales minus variable costs. EBIT is derived by subtracting fixed costs from contribution. The degree of operating leverage is contribution divided by EBIT, and it is considered relevant whenever its value exceeds one, indicating that fixed costs impact the profit sensitivity.

79. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
In a firm with combined leverage, a 10% increase in revenue can lead to a magnified 15% increase in EBT and EPS. This is because a marginal change in revenue results in a disproportionate change in earnings due to the presence of fixed operating and financial costs. Therefore, both the assertion and the reason are true and logically connected in this scenario.

80. (C) Assertion (A) is true, but Reason (R) is false.
The assertion is true because the degree of total leverage is indeed the mathematical product of financial and operating leverages. However, the reason is false because total leverage must account for both financial fixed costs like interest and operating fixed costs. Neglecting operating fixed costs would fail to capture the full magnifying effect that total leverage is designed to measure.

81. (C) 5.00 times
Company Gamma has a contribution of Rs. 5,00,000 and an EBIT of Rs. 2,00,000, which gives a DOL of 2.50. Its EBT is Rs. 1,00,000, calculated as EBIT minus interest, giving a DFL of 2.00. Multiplying the DOL of 2.50 by the DFL of 2.00 results in a degree of total leverage of 5.00 times for the organization.

82. (A) I, II, IV, and V only
A see-saw is the simplest physical lever, and financial leverage uses debt to boost equity returns. An optimal leverage level involves a cost-benefit analysis, while the see-saw principle shows how distance from the fulcrum magnifies force. Operating leverage applies to production rather than finance. Consequently, statements I, II, IV, and V are correct, accurately describing the diverse applications of leverage.

83. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Financial leverage is a deliberate strategy to use borrowed capital to increase the returns for equity investors. This works because the interest cost of the debt is typically lower than the profit generated by the assets acquired with those funds. Both the assertion and the reason are true, and the reason correctly explains the underlying economic logic that makes leverage effective.

84. (C) 2.00 times
Based on the previous data, Company Alpha generates a contribution of Rs. 1,20,000 and has an EBIT of Rs. 60,000 after subtracting fixed costs. To find the degree of operating leverage, the contribution is divided by the EBIT. Dividing Rs. 1,20,000 by Rs. 60,000 results in a DOL of 2.00 times, indicating that operating profit is twice as sensitive as sales.

85. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
A marginal change in earnings before tax is equal to the same absolute change in earnings before interest and taxes. This occurs because interest is a fixed expense and does not change with fluctuations in operating profit. Both the assertion and the reason are true, and the reason provides the correct explanation for why these two metrics move by identical amounts.

86. (A) I, II, and III only
The break-even point is calculated as fixed costs divided by contribution per unit. Firms with high leverage, due to higher fixed costs, generally

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have a higher break-even point. Conversely, low fixed costs lead to a lower break-even point. It is incorrect to claim that operating leverage has no relationship with break-even, as fixed costs are the primary driver of both.

87. (B) 1.00 times
The degree of financial leverage is calculated as EBIT divided by EBT. Since Firm Beta has zero debt, it has no interest expenses, meaning its EBIT and EBT are identical. When these two values are divided, the result is exactly 1.00. This signifies that there is no financial leverage being used to magnify the company's operating profits for its equity shareholders.

88. (C) I, III, IV, and V only
Owners use leverage to increase EPS without extra equity, though higher debt reduces the cushion for losses and may decrease EPS if borrowing costs exceed returns. Owners also set prudential borrowing limits. However, lenders are not always willing to lend; they become more cautious as debt-to-equity ratios rise. Thus, statements I, III, IV, and V are the correct ones.

89. (B) Rs. 1,20,000
Company Alpha sells 4,000 units at a price of Rs. 50 per unit, resulting in total sales revenue of Rs. 2,00,000. Since the variable cost is 40% of the selling price, it amounts to Rs. 80,000. Subtracting the variable cost from the total sales revenue yields a contribution amount of Rs. 1,20,000, which is available to cover the firm's fixed costs.

90. (D) Assertion (A) is false, but Reason (R) is true.
The assertion that a high-fixed-cost hospital has low operating leverage is false; such institutions have high operating leverage. However, the reason is true because businesses with high fixed costs are indeed highly sensitive to changes in sales volume, which significantly impacts their EBIT. Therefore, the assertion is incorrect while the underlying logic of the reason regarding profit sensitivity remains accurate.

91. (B) 10,000 units
Enterprise Epsilon sells units at Rs. 200 with a variable cost of Rs. 120, resulting in a contribution per unit of Rs. 80. The total fixed operating costs are Rs. 8,00,000. To find the break-even point in units, divide the total fixed costs by the contribution per unit. Dividing Rs. 8,00,000 by Rs. 80 results in a break-even point of 10,000 units.

92. (C) Nil
Delta Tech reports an earnings before interest and tax of Rs. 1,50,000. To find the earnings before tax, the fixed interest expenses of Rs. 1,50,000 must be subtracted from the EBIT. Since the EBIT and the interest expenses are exactly equal, the resulting earnings before tax is nil. This indicates that the firm is currently operating at its financial break-even point.

93. (D) 50%
Company Gamma has a degree of total leverage of 5.00 times. This means that any percentage change in sales revenue will result in a change in earnings before tax that is five times as large. Therefore, an anticipated 10% increase in sales revenue will lead to a 50% increase in the firm's earnings before tax, demonstrating the high total sensitivity.

94. (C) 6.00 times
At a sales volume of 12,000 units, Enterprise Epsilon generates a total contribution of Rs. 9,60,000. Subtracting the fixed operating costs of Rs. 8,00,000 from this contribution results in an EBIT of Rs. 1,60,000. To find the degree of operating leverage, divide the contribution by the EBIT. Dividing Rs. 9,60,000 by Rs. 1,60,000 yields a DOL of exactly 6.00 times.

95. (A) Negative Rs. 50,000
In the subsequent year, Delta Tech's earnings before interest and tax dropped to Rs. 1,00,000. However, the fixed interest expenses remained constant at Rs. 1,50,000. To calculate the new earnings before tax, subtract the interest from the EBIT. This results in an EBT of negative Rs. 50,000, indicating that the firm has incurred a loss after meeting its debt obligations.

96. (B) It would increase.
If Company Gamma's fixed operating costs increase while sales and variable costs remain constant, the firm's EBIT will decrease. Since the degree of operating leverage is calculated by dividing the unchanged contribution by a now-smaller EBIT, the resulting value will increase. Higher fixed costs inevitably lead to a higher

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degree of operating leverage, making the firm more sensitive to fluctuations.

97. (A) Rs. 9,60,000
Enterprise Epsilon generates a contribution per unit of Rs. 80, which is the difference between the selling price of Rs. 200 and the variable cost of Rs. 120. At a sales volume of 12,000 units, the total contribution is calculated by multiplying these units by the unit contribution. Therefore, 12,000 units multiplied by Rs. 80 results in a total contribution of Rs. 9,60,000.

98. (B) Negative number
With an EBIT of Rs. 1,00,000 and fixed interest of Rs. 1,50,000, Delta Tech's earnings before tax is negative Rs. 50,000. The degree of financial leverage is calculated by dividing the positive EBIT by the negative EBT. This results in a negative number, signifying that the firm is operating below its break-even point and is unable to cover its interest costs.

99. (D) Undefined
Under the current circumstances where Delta Tech's EBIT is exactly equal to its fixed interest expenses, the earnings before tax is zero. Because the formula for the degree of financial leverage involves dividing the EBIT by the EBT, the calculation requires division by zero. In mathematics, this makes the resulting value of the degree of financial leverage undefined at that point.

100. (D) 2.67 times
At 12,000 units, Enterprise Epsilon has an EBIT of Rs. 1,60,000. Subtracting the fixed financial charges of Rs. 1,00,000 results in an EBT of Rs. 60,000. To find the degree of financial leverage, divide the EBIT of Rs. 1,60,000 by the EBT of Rs. 60,000. This calculation results in a DFL of approximately 2.67 times for the enterprise in this scenario.

CHAPTER 09
Capital Investment Decisions

Oct/Nov 2014

1. The advantage where duty paid on an asset is allowed to be off set against duties or taxes collected is called:
(A) Equivalent Annual Cost
(B) Modified Internal Rate of Return
(C) Capital Rationing
(D) Input Tax Credit

May/June 2023

2. Which statement correctly identifies a limitation of the Net Present Value (NPV) method?
(A) It fails to take into account the time element and discount rates
(B) It is heavily reliant on the Accounting Rate of Return calculations
(C) It does not provide a measure of the project's relative profitability or rate of return
(D) It completely ignores the initial investment required for the project

Oct/Nov 2009

3. Which principle requires estimating separately the cost incurred even if the project is not run from the cost incurred while running it?
(A) Consistency principle
(B) Separation principle
(C) Incremental principle
(D) Third principle

May/June 2016

4. Identify the incorrect statement regarding the Internal Rate of Return (IRR).
(A) It means an annual rate of growth an investment is going to generate
(B) The formula involves permutations and combinations through trial and error
(C) Investment is worth it only if IRR is lower than required return
(D) IRR may be misleading if cash flows intermittently turn positive or negative

Oct/Nov 2018

5. The Accounting Rate of Return (ARR) method is often considered over other sophisticated methods because:
(A) It uses detailed discounted cash flow calculations for the entire project life
(B) It uses accounting information familiar to the business community
(C) It accounts for the time value of money comprehensively across all periods
(D) It is strictly cash flow centric and not profit centric for evaluations

May/June 2007

6. The final cost analysis centres on several points or issues. Which of the following is NOT one of those points?
(A) The best combination
(B) Compounding terminal value
(C) Competitive bargaining
(D) Life span of the productive assets

Oct/Nov 2025

7. What is the primary objective of capital investment decisions for a management team?
(A) To replace all deteriorating plant and equipment annually
(B) To maximize the wealth of the company's shareholders
(C) To distribute all annual earnings to current shareholders
(D) To limit capital expenditure and reduce working capital levels

May/June 2012

8. Which of the following statements correctly describes forecasting for working capital?
(A) Working capital is exclusively funded by banks without any margins
(B) Requirement duration depends on the business operating cycle
(C) Working capital requirements do not include raw materials or goods
(D) Most long-term funds are met through the payables or sundry creditors

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leads to a disproportionately larger increase in operating profit. This magnifying effect is central to the concept of business risk.

57. (B) I and III only
As debt rises, lenders often demand higher interest rates, which can hinder value generation. Additionally, if the surplus from assets is less than the cost of borrowing, earnings per share will decrease. However, it is incorrect to say that borrowings increase the cushion for adverse events; higher debt actually reduces this cushion. Therefore, only statements one and three are correct.

58. (A) P-3, Q-1, R-2, S-4
When there are no fixed interest charges, DFL is one. Operating above break-even results in a positive DFL. At the break-even level where EBT is nil, DFL is undefined. Operating below the break-even level leads to a negative DFL. These statuses reflect how financial risk and sensitivity change based on the company's profitability and its use of borrowed capital throughout the year.

59. (A) I only
Financial leverage involves enhancing earnings per share by using borrowed funds instead of additional equity. However, the core assumption is that the cost of these funds will be less than the value added by the assets, not more. If the cost were higher, the leverage would destroy value. Therefore, only the first statement accurately describes the intended purpose of financial leverage.

60. (B) P-3, Q-1, R-2, S-4
The ratio of percentage change in EPS to EBIT is the degree of financial leverage. The percentage change in EBIT relative to sales is the degree of operating leverage. The percentage change in EBT compared to sales is the degree of total leverage. Finally, total assets divided by total equity represents the equity multiplier. These ratios quantify various leverage aspects.

61. (B) I, II, III, and V only
Financial leverage shows the sensitivity of owners' cash flows to operating profits, while operating leverage shows the sensitivity of operating profits to sales. Both contribute to shareholder risk. Financing decisions directly affect the capital structure. However, investment decisions primarily involve asset allocation rather than the capital structure itself. Thus, statements one, two, three, and five are the correct ones.

62. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
A business with very low fixed costs remains profitable even if sales drop substantially because it has low operating leverage. Fixed operating expenses act as a pivot; with fewer fixed costs, the magnitude of profit sensitivity to revenue changes is reduced. Therefore, both the assertion and the reason are true, and the reason correctly explains why the business is resilient.

63. (B) I, II, and IV only
Fixed operating expenses pivot operating leverage, and fixed financial charges pivot financial leverage. Together, they enhance the sensitivity of cash flows to units sold. However, the statement that greater fixed costs make cash flows less sensitive is incorrect; they actually make them more sensitive. Consequently, only the first, second, and fourth statements accurately describe the function of pivots.

64. (C) 2.00 times
To find the degree of operating leverage for Firm Beta, first calculate the contribution by subtracting the variable cost of Rs. 4,00,000 from the sales of Rs. 10,00,000, resulting in Rs. 6,00,000. Next, subtract the fixed operating costs of Rs. 3,00,000 to find the EBIT of Rs. 3,00,000. Dividing the contribution by EBIT yields a DOL of 2.00 times.

65. (C) Assertion (A) is true, but Reason (R) is false.
Earnings before tax is directly proportional to earnings per share because the tax rate and number of equity shares are constants. However, the reason is false because it claims these factors are variable and adjust with operational output. In reality, they remain fixed in the short term, which is what creates the direct linear relationship between taxable income and returns.

66. (A) Be equal to the percentage change in EBIT.
Since Firm Beta has a degree of financial leverage of exactly one, it means there are no fixed interest charges. In this situation, any percentage change

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May/June 2025

19. Which of the following correctly describes "Capital rationing"?
(A) Evaluating the surplus you will end up with at the end of the project
(B) Replacing deteriorating plant and equipment to maximize owner wealth
(C) Using pre-tax cash flows to evaluate all mutually exclusive projects
(D) Restricting the use of capital because resources are limited

Oct/Nov 2019

20. In Social Cost Benefit Analysis (SCBA), adverse impacts like generation of pollution and health hazards are treated as:
(A) Negative values representing social cost
(B) Positive values representing social benefits
(C) Sunk costs with zero value
(D) Indirect benefits of infrastructure development

May/June 2009

21. Which of the following is NOT listed as a reason why the Accounting Rate of Return (ARR) scores over Discounted Cash Flow (DCF) methods?
(A) DCF method calls for estimates for the entire project life making it more uncertain.
(B) Estimating exercise over the long run turns out to be unreal with regard to revenue and cost.
(C) ARR takes into account the time value of money effectively.
(D) Many assets outlive the rated life making DCF work away from reality.

Oct/Nov 2011

22. When sourcing working capital, what percentage is generally sourced from banks after promoters fund the margin?
(A) 25%
(B) 50%
(C) 75%
(D) 100%

May/June 2010

23. Why is it advisable to always consider post-tax cash flows when estimating elements of a project?
(A) Because pre-tax flows are easier to calculate
(B) Because depreciation must be deducted
(C) Because interest costs must be added back
(D) Because tax payments cannot be ignored

Oct/Nov 2024

24. Identify the incorrect statement regarding the Payback Period method.
(A) It identifies the period in which the initial investment is fully recovered.
(B) It ignores the cash flow beyond the payback period.
(C) The method is suitable for small businesses where spending more time and money on detailed analysis is not worth it.
(D) It implicitly takes the time value of money into account without requiring discounted cash flows.

May/June 2017

25. Which of the following statements accurately reflects the concept of "Leveraging" in cost analysis?
(A) Leveraging involves ensuring taxes paid on acquisition are unrecoverable
(B) Using alternatives like buying or leasing to optimize operations
(C) Leveraging implies restricting the procurement process to a single supplier
(D) Leveraging confirms the necessity of the acquired asset based on reports

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Oct/Nov 2005

26. In the context of capital budgeting, what does "Equivalent Annual Costs (EAC)" represent?
(A) The total cost incurred for setting up a new project
(B) The initial investment required for capital rationing
(C) The duty paid on an asset to be offset against taxes
(D) The annual cost of owning and operating an asset

May/June 2020

27. A business typically has three elements of cash flows. Which of the following is NOT one of them?
(A) Marginal
(B) Initial
(C) Operating
(D) Terminal

Oct/Nov 2015

28. While computing Cash Inflow After Tax (CFAT), what is added back to Earning After Tax (EAT)?
(A) Depreciation

May/June 2019

9. Which of the following statements about the cost of fixed assets is incorrect?
(A) Land cost is significantly higher for freehold land than for lease land
(B) Plant cost is limited to purchase price excluding duties and freight
(C) Factory building cost varies based on whether it is bought or constructed
(D) Internal cabling and transformers are part of proper power supply costs

Oct/Nov 2006

10. The concept of calculating Net Present Value (NPV) and Internal Rate of Return (IRR) is the same, but while calculating IRR, the NPV is set to:
(A) 1
(B) The cost of capital
(C) 0
(D) The profitability index

May/June 2021

11. In Social Cost Benefit Analysis (SCBA), which of the following is NOT considered a social cost or adverse impact?
(A) Extinction of some birds and rare species
(B) Health hazards
(C) Generation of pollution
(D) Employment generation

Oct/Nov 2010

12. How is the Profitability Index (PI) mathematically defined?
(A) Average annual net income divided by investment
(B) Net cash inflow divided by the number of years
(C) Sum of discounted cash inflows divided by initial cash outlay
(D) Total present value of cost divided by terminal value of cash inflows

May/June 2005

13. Which of the following correctly describes the discounted payback period method?
(A) It considers discounted cash flow instead of simple cash flows
(B) It simply adds the cash flow as it is without any discounting at all
(C) It ignores the time value of money entirely for all project phases
(D) It always yields a shorter payback period than the simple payback method

Oct/Nov 2022

14. According to the Decision Rule for Net Present Value (NPV), a proposal should be accepted if:
(A) NPV is strictly equal to 0
(B) NPV < 0
(C) NPV $>= 0$
(D) NPV is equal to the initial investment

May/June 2018

15. Which of the following is NOT included in the working capital of a business?
(A) Raw materials
(B) Work in progress
(C) Receivables
(D) Freehold land

Oct/Nov 2016

16. According to the principles of estimating project cash flows, what does the "separation principle" dictate?
(A) Separating the investment side from the finance side
(B) Separating fixed costs from variable costs
(C) Separating pre-tax cash flows from post-tax cash flows
(D) Separating short-term funds from long-term funds

May/June 2014

17. Which of the following statements about the Modified Internal Rate of Return (MIRR) is incorrect?
(A) Inflows are compounded at the IRR to find total terminal value
(B) MIRR corrects the assumption of investing inflows at the project IRR
(C) Any negative cash flow is treated as a cost and discounted to present
(D) MIRR finds only one value for the project, eliminating multiple IRRs

Oct/Nov 2007

18. Which Microsoft Excel function is an inbuilt function used to calculate the Modified Internal Rate of Return?
(A) =MIRR(...)
(B) =IRR(...)
(C) =NPV(...)
(D) =XIRR(...)

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Oct/Nov 2013

36. Consider the following statements regarding the NPV method:
I. Positive NPV means the project can be given the go-ahead.
II. The discounting factor applied is highly objective and risk-free.
III. It takes into account the time element and brings the rate of return nearer to reality.
Which of the above statement(s) is/are correct?
(A) I and II
(B) I and III
(C) II and III
(D) I, II, and III

May/June 2015

37. Consider three corporate management strategies regarding earnings: Company A distributes all earnings to shareholders, Company B only invests to replace deteriorating equipment, and Company C reinvests in opportunities that generate higher returns than shareholders could achieve individually. What distinguishes the management of Company C in this context?
(A) Company C invests in returns higher than shareholders could achieve
(B) Company C distributes all leftover earnings to shareholders as dividends
(C) Company C makes investments only to replace deteriorating equipment
(D) Company C gradually decreases in size due to a lack of asset investment

Oct/Nov 2012

38. Match the Social Cost Benefit Analysis (SCBA) factors in List I with their examples in List II.
List I: (Factor)
P. Adverse Impact
Q. Benefits
R. Net Result Criterion
S. Evaluating Body
List II: (Example)
1. Loss of mangroves, extinction of species
2. Central and State Governments, local bodies
3. Fuel savings, uplifting of living standards
4. Positive and equal to or more than the cost of project
(A) P-2, Q-1, R-3, S-4
(B) P-1, Q-3, R-4, S-2
(C) P-3, Q-4, R-2, S-1
(D) P-4, Q-2, R-1, S-3

May/June 2011

39. Consider the following statements regarding the Payback Period method:
I. The payback period method strictly incorporates the time value of money.
II. The shorter the period for recovery of initial investment, the lesser the risk and better the probability to earn profits.
Which of the above statement(s) is/are correct?
(A) Only Statement I is correct
(B) Only Statement II is correct
(C) Both statements are correct
(D) Neither statement is correct

Oct/Nov 2020

40. Match the company behavior in List I with its consequence in List II.
List I: (Behavior)
P. Company A distributes all earnings to shareholders
Q. Company B only replaces deteriorating plant
R. Company C invests in high-return possibilities
S. Company C's ongoing expansion
List II: (Consequence)
1. Passes up valuable investments, missing chances to maximize wealth
2. Increases shareholder wealth by taking successful investments
3. Will gradually decrease in size and have no assets left
4. Will continue as long as lucrative opportunities exist
(A) P-3, Q-1, R-2, S-4
(B) P-1, Q-3, R-4, S-2
(C) P-2, Q-4, R-1, S-3
(D) P-4, Q-2, R-3, S-1

May/June 2022

41. Consider the following statements regarding Social Cost Benefit Analysis (SCBA):
I. Adverse impact will have a positive value in SCBA.
II. Ease of travel and fuel savings are considered benefits.
III. If the net result of positive and negative values is equal to or more than project cost, it is beneficial.
Which of the above statement(s) is/are correct?
(A) I and II
(B) II and III

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(D) As a non-quantifiable entity irrelevant to the net result.

May/June 2021

95. Based on the standard decision rule for NPV, what should Epsilon Logistics do regarding this proposal?
(A) Accept the proposal because NPV >= 0.
(B) Reject the proposal because NPV is less than the initial investment.
(C) Reject the proposal because NPV <= 0.
(D) Wait for a higher cost of capital.

Oct/Nov 2010

96. If the ARR for Delta Inc was to be calculated strictly on the Total Initial Investment Basis (investment at the beginning), what would it be?
(A) 15%
(B) 20%
(C) 25%
(D) 30%

May/June 2005

97. When cash is scarce and capital rationing is enforced, which project should Zeta Tech prioritize according to the profitability index logic?
(A) Project Y, because the Profitability Index is higher.
(B) Project X, because the absolute inflow is higher.
(C) Project X, because the absolute outflow is higher.
(D) Neither, as both have a PI below 2.0.

Oct/Nov 2022

98. Read the following scenario and answer the question that follows:
Zeta Tech evaluates two mutually exclusive projects. Project X requires a discounted cash outflow of Rs. 8,00,000 and yields discounted cash inflows of Rs. 9,60,000. Project Y requires Rs. 1,20,000 in discounted cash outflow and yields Rs. 1,68,000 in discounted cash inflows.
What is the Profitability Index (PI) for Project X?
(A) 1.05
(B) 1.15
(C) 1.20
(D) 1.40

May/June 2018

99. What is the Net Present Value (NPV) of the proposal for Epsilon Logistics?
(A) -Rs. 17,260
(B) Rs. 17,260
(C) Rs. 32,550
(D) Rs. 50,000

Oct/Nov 2016

100. Based on the SCBA principle, if the net result (benefits minus social costs) is equal to or more than the financial cost of the bridge project, the decision should be:
(A) To reject the project due to environmental damage.
(B) To demand a higher IRR before proceeding.
(C) To strictly recalculate using the Modified Internal Rate of Return.
(D) To consider the project as beneficial and proceed.

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throughout
4. Separating investment side from finance side

(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-4, R-3, S-2
(C) P-4, Q-2, R-1, S-3
(D) P-2, Q-3, R-4, S-1

May/June 2012

49. Identify the INCORRECT pair regarding project evaluation methodologies.
(A) MIRR < Cost of capital - Accept the proposal
(B) NPV > 0 - Accept the proposal
(C) IRR > Cost of capital - Accept the proposal
(D) Profitability Index < 1 - Indicates the project is unprofitable

Oct/Nov 2014

50. Match the terms related to MIRR calculation in List I with their mathematical role in List II.
List I: (Term)
P. PVC
Q. TV
R. r
S. n
List II: (Role)
1. Terminal value of cash inflows expected
2. Cost of capital used as discount rate
3. Number of equal periods at the end of which cash flows occur
4. Present value of costs associated with the project

(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-3, R-4, S-1

May/June 2019

51. Consider the following statements regarding IRR and MIRR:
I. IRR assumes that interim cash inflows are reinvested at the IRR of the project.
II. MIRR treats negative cash flows as cost and discounts them at the cost of capital.
III. MIRR is perfectly valid for ranking mutually exclusive projects of different sizes without any issue.
Which of the above statement(s) is/are correct?
(A) I and II
(B) I and III
(C) II and III
(D) I, II, and III

Oct/Nov 2006

52. Arrange the following steps for calculating the Modified Internal Rate of Return (MIRR) in the correct chronological order:
I. Calculate the terminal value (TV) of the cash inflows expected from the project.
II. Calculate the present value of the costs (PVC) using the cost of capital as the discount rate.
III. Obtain the MIRR by solving the equation $PVC = TV / (1 + MIRR)^n$.
(A) I, II, III
(B) II, I, III
(C) III, I, II
(D) II, III, I

May/June 2021

53. Match the Total Cost Analysis criteria in List I with its definition in List II.
List I: (Criteria)
P. Necessity
Q. Competitive bargaining
R. Leverages
S. Growth considerations
List II: (Definition)
1. Cost incurred should be futuristic with capacity enhancement
2. Asset acquired was absolutely necessary in type, brand, size
3. Procurement process planned to pay the best bargained price
4. Considering alternatives for fund raising and buying vs. leasing

(A) P-1, Q-4, R-2, S-3
(B) P-2, Q-3, R-4, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-1, S-3

Oct/Nov 2010

54. Consider the following statements regarding NPV analysis:
I. A business generally has more liabilities than assets under the working capital head.
II. An increase in working capital is treated as a cash outflow.
Which of the above statement(s) is/are correct?
(A) Only Statement I is correct
(B) Only Statement II is correct
(C) Both statements are correct
(D) Neither statement is correct

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(C) I and III
(D) I, II, and III

Oct/Nov 2023

42. The fundamental meaning of "Net Present Value" is best captured by which phrase?
(A) A rupee a year later is more valuable than a rupee now.
(B) Profitability is directly proportional to the accounting rate of return.
(C) A bird in hand is better than two in the bush.
(D) The payback period must equal the expected life of the asset.

Oct/Nov 2014

43. Which of the appraisal methods is correctly paired with its nature?
(A) Payback period - Takes time value of money into account for all flows
(B) Net Present Value - Considers all future cash flows discounted at expected return rate
(C) Discounted payback period - Profit centric and not cash flow centric at all
(D) Accounting Rate of Return - Uses historical book values ignoring revenue

Oct/Nov 2009

44. Match the Cash Flow Elements in List I with their descriptions in List II.
List I: (Element)
P. Initial Investment
Q. Operating cash flow
R. Terminal cash flow
S. Cost to environment
List II: (Description)
1. Comprises outflow and resulting inflow of business operations
2. Fixed cost for pollution prevention or planting trees
3. Net inflow after realizing assets on liquidation
4. Capital expenditure and net working capital to start
(A) P-4, Q-1, R-3, S-2
(B) P-3, Q-4, R-2, S-1
(C) P-1, Q-2, R-4, S-3
(D) P-2, Q-3, R-1, S-4

May/June 2023

45. Consider the following statements regarding the Accounting Rate of Return (ARR):
I. It is cash flow centric rather than profit centric.
II. It assumes many assets outlive their rated life, making DCF estimates uncertain over the long run.
III. There is an internal inconsistency as the return part belongs to owners while the denominator includes equity and debt.
Which of the above statement(s) is/are correct?
(A) I and II
(B) II and III
(C) I and III
(D) Only III

Oct/Nov 2018

46. The "terminal" element of cash flow is most accurately described as:
(A) The initial capital expenditure required to start a brand new project
(B) Net inflow from realization of assets upon liquidation at end of life
(C) The outflow and resulting inflow of the daily operations of the business
(D) The cash flows generated before any taxes and depreciation are deducted

May/June 2007

47. Consider the following statements regarding capital rationing:
I. Capital rationing implies no restriction on the use or supply of funds.
II. It can be triggered by fixing norms like enforcing a higher IRR or fixed money discount rate.
Which of the above statement(s) is/are correct?
(A) Only Statement I is correct
(B) Only Statement II is correct
(C) Both statements are correct
(D) Neither statement is correct

Oct/Nov 2025

48. Match the principle of cash flow estimation in List I with its correct meaning in List II.
List I: (Principle)
P. Separation principle
Q. Incremental principle
R. Third principle
S. Consistency principle
List II: (Meaning)
1. Fixed versus variable cost estimation
2. Using post-tax cash flows always
3. Keeping the basis uniform and logical

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V. Mutually exclusive projects are best selected using the one with the higher NPV.

Which of the above statement(s) is/are correct?

(A) I, II, IV, and V
(B) I, II, III, and IV
(C) II, III, IV, and V
(D) I, III, IV, and V

Oct/Nov 2019

62. The following question consists of two statements – Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): The Modified Internal Rate of Return (MIRR) is considered more realistic than the traditional IRR.

Reason (R): MIRR assumes that intermediate cash inflows are reinvested at the project's IRR.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2009

63. Consider the following statements about the total cost analysis of projects:

I. 'Necessity' analysis confirms the asset type, brand, and size are absolutely required.
II. 'Leveraging' considers buying vs. leasing and raising finance.
III. 'Environmental impact' involves minimizing pollution and ensuring clean surroundings.
IV. 'Sustainability' ensures short-term profitability over long-term operations.

Which of the above statement(s) is/are correct?

(A) I, II, and III
(B) I, II, and IV
(C) II, III, and IV
(D) I, III, and IV

Oct/Nov 2011

64. Based on the data for Beta Corp, what is the annual Earning After Tax (EAT)?

(A) Rs. 28,000
(B) Rs. 40,000
(C) Rs. 50,000
(D) Rs. 78,000

May/June 2010

65. The following question consists of two statements – Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): While considering cash flows, it is advisable to always consider post-tax cash flows.

Reason (R): Tax payments cannot be ignored, and discounting pre-tax flows uses a rate that may not be reliable.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

66. Based on the cash inflows for Gamma Ltd, what is the balance cash outlay required to be recovered in Year 3 to meet the initial outlay?

(A) Rs. 60,000
(B) Rs. 80,000
(C) Rs. 1,00,000
(D) Rs. 1,20,000

May/June 2017

67. Consider the following statements regarding the factors affecting working capital forecasts:

I. Based on the operating cycle of the business.
II. Sourced partly from payables or sundry creditors.
III. Used to meet fixed long term manufacturing asset needs.
IV. Accounts for the gap between statutory dues payment and collection.

Which of the above statement(s) is/are correct?

(A) I, II, and III
(B) I, II, and IV
(C) II, III, and IV
(D) I, III, and IV

Oct/Nov 2005

68. The following question consists of two statements – Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): The Net Present Value (NPV) method effectively addresses the time element in capital budgeting.

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May/June 2005

55. Which of the following is correctly paired regarding the versions of calculating the Accounting Rate of Return (ARR)?
(A) Version 3 - Average Investment Basis
(B) Version 1 - Total Investment Basis
(C) Version 2 - Annual Basis
(D) Version 4 - Initial Investment Basis

Oct/Nov 2022

56. The "internal inconsistency" of the Accounting Rate of Return (ARR) method is best explained by the fact that:
(A) Return belongs to owners, but denominator includes total debt and equity
(B) The numerator represents cash flows while the denominator represents profits
(C) The time value of money is applied only to the numerator of the equation
(D) It relies on expected future cash flows rather than historical book values

May/June 2018

57. Consider the following statements regarding estimating project cash flows:
I. Cost flows in to investment side and the interest flows in to financing side.
II. Fixed versus variable cost estimation is related to the separation principle.
III. It is advisable to always consider pre-tax cash flows as tax payments can be ignored.
Which of the above statement(s) is/are correct?
(A) Only I
(B) I and II
(C) II and III
(D) I, II, and III

Oct/Nov 2016

58. Match the type of asset or cost in List I with its associated components in List II.
List I: (Asset/Cost Type)
P. Freehold Land
Q. Factory Building
R. Plant and Machinery
S. Intangible Assets
List II: (Components)
1. Registrations, patents, trademarks
2. Purchase price, duties, freight inward, installation
3. Stamp duty, legal fees, leveling, lifetime rights
4. Acquisition, stamp duty, cost of construction or additions to leased premises
(A) P-3, Q-4, R-2, S-1
(B) P-4, Q-3, R-1, S-2
(C) P-2, Q-1, R-4, S-3
(D) P-1, Q-2, R-3, S-4

May/June 2014

59. Consider the following statements regarding working capital:
I. Working capital includes raw materials, work in progress, and finished goods in stock.
II. A part of the working capital is required to be funded by promoters as margin, while generally 75% can be sourced from banks.
Which of the above statement(s) is/are correct?
(A) Only Statement I is correct
(B) Only Statement II is correct
(C) Both statements are correct
(D) Neither statement is correct

Oct/Nov 2007

60. Match the concept in List I with its formula or decision rule in List II.
List I: (Concept)
P. Profitability Index
Q. NPV Decision Rule
R. IRR Decision Rule
S. Discounted Payback
List II: (Rule/Formula)
1. Accept if rate > Cost of Capital
2. Uses discounted cash flow to find recovery period
3. Sum of discounted cash inflows / Initial cash outlay
4. Accept if >= 0
(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-1, Q-2, R-3, S-4
(D) P-2, Q-1, R-4, S-3

NODIA

May/June 2025

61. Consider the following statements concerning Investment Appraisal methods:
I. Payback period identifies the time to recover initial investment.
II. Discounted payback takes time value of money into account.
III. Both payback methods definitively inform if a project increases owners' wealth.
IV. The NPV represents the business entity's value increase if the investment is made.

Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2006

75. Read the following scenario and answer the question that follows:
Gamma Ltd is analysing a project requiring an initial cash outlay of Rs. 3,00,000. Expected cash inflows are: Year 1: Rs. 1,00,000, Year 2: Rs. 1,20,000, Year 3: Rs. 1,00,000, Year 4: Rs. 60,000.
What is the cumulative cash inflow at the end of Year 2?
(A) Rs. 1,00,000
(B) Rs. 1,20,000
(C) Rs. 2,20,000
(D) Rs. 3,20,000

Oct/Nov 2017

76. Consider the following statements regarding the calculation of cash forecasts (CFAT):
I. Depreciation is deducted to arrive at Earning Before Tax.
II. Tax is deducted from Earning Before Tax to calculate Earning After Tax.
III. Depreciation is subtracted from Earning After Tax to get CFAT.
IV. Variable and Fixed Cash Costs are deducted from Sales Value.
Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) I, II, and IV
(C) II, III, and IV
(D) I, III, and IV

May/June 2008

77. Read the following scenario and answer the question that follows
Beta Corp evaluates a new machine costing Rs. 2,00,000 with a 4-year economic life and straight-line depreciation. The change in earnings before tax and depreciation is Rs. 90,000 annually. The tax rate is 30%.
What is the annual depreciation for the machinery?
(A) Rs. 40,000
(B) Rs. 50,000
(C) Rs. 90,000
(D) Rs. 20,000

Oct/Nov 2013

78. Consider the following statements related to the Modified Internal Rate of Return (MIRR):
I. It is calculated to correct aberrations of alternative positive and negative cash flows.
II. It drops the unrealistic assumption of investing intermittent inflows at project IRR.
III. Any negative cash flow is compounded at the terminal stage.
IV. The inflows are compounded at the cost of capital to find the total compounded terminal value.
V. The discount rate that equates the terminal value to present value of costs is the MIRR.
Which of the above statement(s) is/are correct?
(A) I, II, III, and V
(B) I, II, IV, and V
(C) II, III, IV, and V
(D) I, III, IV, and V

May/June 2015

79. The following question consists of two statements – Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): A Profitability Index (PI) below 1 indicates a highly profitable project.
Reason (R): PI is calculated by dividing the present value of future expected cash flows by the initial investment.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2012

80. The following question consists of two statements – Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): The Payback Period method completely ignores the profit aspect of a project.
Reason (R): Payback Period method ignores the cash flow beyond the payback period.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

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(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2011

81. Based on the uniform cash flow assumption during the year, what is the exact payback period for Gamma Ltd's project?
(A) 2.6 years
(B) 2.8 years
(C) 3.0 years
(D) 3.2 years

Oct/Nov 2020

82. Consider the following statements about Project Cash Flow estimation:
I. Initial investment includes capital expenditure and contribution for net working capital.
II. The terminal flow is the net inflow after realizations on liquidation.
III. Incremental principle separates fixed versus variable costs.
IV. Financing interest strictly flows into the investment side.
V. Consistency principle must be maintained.
Which of the above statement(s) is/are correct?
(A) I, II, III, and V
(B) I, II, IV, and V
(C) II, III, IV, and V
(D) I, III, IV, and V

May/June 2022

83. The following question consists of two statements – Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): The management of Company C increases the wealth of the shareholders.
Reason (R): Company C invests in all possibilities that generate a return higher than what the shareholders could receive if they invested themselves.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2023

84. Referring to the case of Alpha Manufacturing, the manager strictly deducts estimated taxes to project post-tax cash flows. By doing so, she adheres to the:
(A) First principle
(B) Second principle
(C) Third principle
(D) Consistency principle

May/June 2016

85. The following question consists of two statements – Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): An increase in working capital implies a net cash inflow.
Reason (R): Working capital is the difference between current assets and current liabilities.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2009

86. Consider the following statements regarding the Profitability Index (PI):
I. It is also called value investment ratio or profit investment ratio.
II. PI is calculated by dividing initial investment by the present value of future cash flows.
III. An index below 1 indicates that the project is unprofitable.
IV. It helps in ranking various projects when cash is scarce.
Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, and IV

May/June 2023

87. Based on the data for Beta Corp, what is the Cash Inflow After Tax (CFAT) for the year?
(A) Rs. 28,000
(B) Rs. 40,000

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(C) Rs. 78,000
(D) Rs. 90,000

Oct/Nov 2018

88. Consider the following statements concluding statements regarding capital investment decisions:

I. Incremental cash flows entail anticipating sales, costs, taxes, and net working capital.
II. Changes in net working capital are caused by a bigger requirement for cash, receivables, or inventory.
III. NPV and Discounted Payback equally maximize owners' wealth for mutually exclusive enterprises.
IV. IRR is risky when choosing between mutually exclusive projects.
V. In practice, businesses heavily use discounted cash flow techniques.

Which of the above statement(s) is/are correct?
(A) I, II, III, and V
(B) I, II, IV, and V
(C) II, III, IV, and V
(D) I, III, IV, and V

May/June 2007

89. Read the following scenario and answer the question that follows:
Alpha Manufacturing is planning a new factory. The finance manager separates estimated assets for servicing operations from financing costs. By separating the investment side from the financing side (assets vs. interest), the finance manager is applying the:
(A) Incremental principle
(B) Separation principle
(C) Consistency principle
(D) Third principle

Oct/Nov 2025

90. The following question consists of two statements – Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): All duties or taxes paid on acquisition of an asset are strictly included in the final cost of the asset.
Reason (R): The duty structure allows the duty paid on an asset to be offset against duties collected, known as Input Tax Credit (ITC).
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2012

91. What is the Profitability Index (PI) for Project Y at Zeta Tech?
(A) 1.20
(B) 1.35
(C) 1.40
(D) 1.55

Oct/Nov 2014

92. Read the following scenario and answer the question that follows:
Epsilon Logistics evaluates a proposal with an initial investment of Rs. 1,50,000. Net cash flows are Rs. 70,000 (Y1), Rs. 80,000 (Y2), and Rs. 50,000 (Y3). The cost of capital is 10%. (PVIF at 10%: Y1=0.909, Y2=0.826, Y3=0.751).
What is the total discounted cash inflow (Present Value) over the three years?
(A) Rs. 1,50,000
(B) Rs. 1,67,260
(C) Rs. 1,82,450
(D) Rs. 2,00,000

May/June 2019

93. Using the calculated Average Investment for Delta Inc, what is the Accounting Rate of Return (ARR) based on the Average Investment Basis?
(A) 15%
(B) 20%
(C) 25%
(D) 30%

Oct/Nov 2006

94. Read the following scenario and answer the question that follows: Omega Municipality proposes a new bridge. Upon Social Cost Benefit Analysis (SCBA), adverse impacts like destruction of local flora are identified alongside time and fuel savings. In the context of SCBA, how is the destruction of local flora treated?
(A) As a positive value representing ease of development.
(B) As a sunk cost to be ignored in SCBA.
(C) As an adverse impact having a negative value.

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Reason (R): NPV applies a subjective discounting factor to future cash flows bringing the rate of return nearer to reality.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2020

69. Referring to the case of Alpha Manufacturing, the manager also distinguishes costs incurred even if the factory doesn't run from operational costs. This action aligns with the:

(A) Incremental principle
(B) Terminal flow assumption
(C) Consistency principle
(D) Separation principle

Oct/Nov 2015

70. Consider the following statements regarding IRR calculations and its limitations:

I. NPV is set to zero to determine IRR.
II. The resultant IRR is easily generated without permutations or trial and error.
III. Multiple rates can occur with intermittent positive and negative flows.
IV. If IRR differs drastically from NPV, scenario analysis is recommended.
V. It should be studied in conjunction with WACC or RRR for authenticity.

Which of the above statement(s) is/are correct?

(A) I, II, IV, and V
(B) I, III, IV, and V
(C) II, III, IV, and V
(D) I, II, III, and V

May/June 2013

71. Read the following scenario and answer the question that follows:

Delta Inc invests Rs. 4,00,000 in a project with a 4-year life span and a salvage value of Rs. 80,000. The annual profit after tax (EAT) is consistently Rs. 60,000.

Based on the Average Investment Basis, what is the Average Investment for Delta Inc?

(A) Rs. 4,00,000
(B) Rs. 2,00,000
(C) Rs. 2,40,000
(D) Rs. 1,60,000

Oct/Nov 2021

72. Consider the following statements regarding the attributes of ARR:

I. It involves estimating revenue and expenses over a few years to find an average rate of return.
II. It provides a measure based on accounting information readily available to the business community.
III. It heavily weights more distant benefits over earlier benefits compared to the payback period.
IV. It accounts comprehensively for the time value of money.

Which of the above statement(s) is/are correct?

(A) I, II, and III
(B) I, II, and IV
(C) II, III, and IV
(D) I, III, and IV

May/June 2024

73. The following question consists of two statements – Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): The Internal Rate of Return (IRR) can result in multiple rates for a single project.

Reason (R): Non-conventional, casual, or interruptive cash flows create mathematical conditions for multiple IRRs.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2008

74. The following question consists of two statements – Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): Cost of freehold land is costlier than lease land.

Reason (R): Freehold land gives lifetime rights to enjoy it.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of

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ANSWERS

1. (D) Input Tax Credit
The Input Tax Credit mechanism allows organizations to recover duties paid on assets by offsetting them against taxes collected during business operations. This feature significantly reduces the effective net cost of capital equipment, making investments more financially viable. It serves as a critical consideration during the initial cost analysis phase of capital budgeting projects for modern businesses.

2. (C) It does not provide a measure of the project's relative profitability or rate of return
The Net Present Value approach measures the absolute surplus generated by a project in monetary terms. However, it fails to indicate the relative profitability or the specific percentage rate of return for the investment. Consequently, comparing projects of significantly different sizes becomes difficult because it does not scale the absolute returns against the required initial capital outlay.

3. (C) Incremental principle
The incremental principle focuses on estimating the specific changes in costs and revenues resulting from a new project. It dictates that managers must differentiate between costs that will be incurred regardless of project operations and those directly tied to running the project. This ensures that only relevant financial changes are considered in complex project evaluation exercises and forecasts.

4. (C) Investment is worth it only if IRR is lower than required return
The Internal Rate of Return represents the annual growth rate an investment generates. The calculation often requires iterative trial and error processes. Critically, an investment is considered financially sound only when the calculated internal rate exceeds the required rate of return or hurdle rate. Relying solely on this metric can be misleading with non-conventional cash flow patterns.

5. (B) It uses accounting information familiar to the business community
The Accounting Rate of Return is frequently preferred because it utilizes standard accounting data already used in business financial reporting. This makes it easily understood by management and stakeholders without requiring complex discounting skills. Unlike cash flow centric methods, it provides a profit-based perspective that aligns with traditional organizational performance measurement techniques and familiar financial reporting standards.

6. (B) Compounding terminal value
Final cost analysis evaluates assets based on necessity, optimal combinations, bargaining efficiency, and expected productive life. Compounding terminal value is a specific mathematical step used in calculating the Modified Internal Rate of Return to handle intermediate cash flows. It is not a standard evaluative point used to analyze the initial total cost of assets during the procurement phase.

7. (B) To maximize the wealth of the company's shareholders
The fundamental goal of corporate management when making capital investment decisions is to maximize the wealth of the company's shareholders. This is achieved by selecting projects where the returns exceed the cost of capital. By reinvesting earnings into high-growth opportunities, management ensures the firm increases in value over time, benefiting all owners through capital appreciation and dividends.

8. (B) Requirement duration depends on the business operating cycle
Forecasting working capital requirements is essential because the duration of funds tied up depends heavily on the specific business operating cycle. This cycle includes the time taken to process raw materials into finished goods and collect receivables. Generally, a significant portion of these requirements is financed through bank borrowings after the promoters provide the required cash margins.

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28. (A) Depreciation
When calculating the Cash Inflow After Tax, depreciation must be added back to the Earning After Tax. Although depreciation is a non-cash expense deducted to calculate taxable income and reduce tax liability, it does not involve an actual outflow of funds. Re-adding it ensures the final figure represents the true net cash generated by daily operations.

29. (C) Discounting pre-tax flows ensures the highest level of reliability.
Effective project cash flow estimation requires adhering to several key principles. The separation principle keeps investment and financing distinct, while the incremental principle focuses on changes in costs. Crucially, discounting should be applied to post-tax cash flows rather than pre-tax flows to ensure accuracy. The consistency principle ensures that a uniform and logical basis is maintained throughout evaluations.

30. (D) The project has non-conventional or interruptive cash flows
Multiple Internal Rates of Return can occur when a project exhibits non-conventional cash flow patterns, where the direction of cash flow changes more than once. This typically happens if there are intermittent negative cash flows during the project's life after the initial investment. Such interruptive flows create mathematical conditions where several discount rates can result in a zero NPV.

31. (A) I, III, IV, II
Calculating Cash Inflow After Tax begins by deducting variable costs from sales to find the contribution. Next, fixed cash costs and depreciation are subtracted to determine the earning before tax. After deducting taxes to find the earning after tax, depreciation is added back as it is a non-cash expense. This systematic process yields the final operating cash flow figure.

32. (B) Capitalization process - Credited to asset and debited to Expenditure during Construction
The capitalization process involves recording costs that provide future economic benefits as assets on the balance sheet. In accounting terms, this usually means debiting the asset account and crediting the relevant expenditure or cash account during the construction phase. Incorrectly identifying the debit and credit relationship leads to errors in the financial representation of project setup and equipment costs.

33. (B) High repair costs and being saddled with outdated technology
Selecting assets with an excessively long lifespan carries significant risks for an organization. Over time, the machinery may become outdated due to rapid technological advancements, leading to competitive disadvantages. Furthermore, as equipment ages, repair and maintenance costs tend to escalate significantly, potentially offseting any initial benefits of the asset's durability and disrupting the overall efficiency of production.

34. (B) Only Statement II is correct
The Net Present Value method is an effective tool for selecting between mutually exclusive projects by identifying which one provides the higher absolute increase in wealth. Conversely, Equivalent Annual Costs are specifically designed to compare the cost-effectiveness of assets with different lifespans, not just identical ones. Therefore, only the statement regarding Equivalent Annual Costs is accurate.

35. (A) P-4, Q-1, R-3, S-2
Different investment appraisal methods have unique characteristics. The payback period focuses on recovering the initial outlay while ignoring subsequent flows. The Accounting Rate of Return is profit-centric and uses accounting data. Net Present Value accounts for the time value of money to show end-of-project surplus. Finally, the Modified Internal Rate of Return resolves multiple rate issues by utilizing terminal values.

36. (B) I and III
The Net Present Value method is a robust appraisal tool. A positive result indicates that a project should proceed as it adds value to the firm. It effectively incorporates the time element by discounting future cash flows, making the expected return more realistic. However, the discounting factor used is often subjective and risk-adjusted rather than being completely risk-free.

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the realistic rate of return for various industrial or commercial projects.

19. (D) Restricting the use of capital because resources are limited
Capital rationing occurs when a firm faces limitations on the total amount of funds available for investment. Due to these resource constraints, management must restrict the use of capital and select only the most profitable projects. This process often involves ranking projects based on metrics like the Profitability Index to maximize value within a fixed budgetary limit.

20. (A) Negative values representing social cost
In Social Cost Benefit Analysis, impacts that harm the community or environment, such as pollution and health risks, are assigned negative values. These represent the social costs that must be balanced against the project's benefits. If the total social costs exceed the benefits, the project may be deemed detrimental to the public interest despite having private financial profitability.

21. (C) ARR takes into account the time value of money effectively.
The Accounting Rate of Return is often favored over Discounted Cash Flow methods due to its simplicity and reliance on familiar accounting data. However, a major drawback of the method is that it does not effectively account for the time value of money. Long-term DCF estimates are often seen as uncertain compared to average accounting returns in practice.

22. (B) Requirement duration depends on the business operating cycle
Forecasting working capital requirements is essential because the duration of funds tied up depends heavily on the specific business operating cycle. This cycle includes the time taken to process raw materials into finished goods and collect receivables. Generally, a significant portion of these requirements is financed through bank borrowings after the promoters provide the required cash margins.

23. (D) Because tax payments cannot be ignored
Estimating project elements should always involve post-tax cash flows because taxes are mandatory legal obligations that directly impact the net funds available. Ignoring tax payments leads to an overestimation of a project's profitability. Furthermore, using pre-tax flows for discounting can produce unreliable results that do not accurately reflect the actual wealth generated for the company shareholders.

24. (D) It implicitly takes the time value of money into account without requiring discounted cash flows.
The payback period method identifies how long it takes to recover the initial investment. While simple and useful for small businesses, it has a significant flaw in that it ignores all cash flows occurring after the payback period is reached. Additionally, it fails to account for the time value of money unless a specific discounted approach is applied.

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25. (B) Using alternatives like buying or leasing to optimize operations
Leveraging in the context of cost analysis refers to the strategic evaluation of different financing and operational alternatives. This includes deciding between buying or leasing assets to optimize the use of funds and improve operational flexibility. It helps the organization maximize its resources by selecting the most cost-effective method for acquiring and utilizing productive equipment and technology.

26. (D) The annual cost of owning and operating an asset
Equivalent Annual Costs represent the annualized cost of owning, operating, and maintaining a capital asset over its entire productive lifespan. This metric is particularly useful for comparing assets that have different lifespans or cost structures. It allows managers to determine which investment option provides the best value on an annual basis, considering both initial outlays and recurring expenses.

27. (A) Marginal
Capital budgeting analysis typically categorizes cash flows into three distinct stages. Initial flows cover the starting investment and setup costs. Operating flows represent the net cash generated during the project's daily operations. Terminal flows occur at the end of the project's life when assets are liquidated. Marginal is not considered one of these three standard primary elements.

9. (B) Plant cost is limited to purchase price excluding duties and freight
When determining the cost of plant and machinery, it is incorrect to exclude duties and freight. The total acquisition cost must include the purchase price plus all expenses necessary to bring the asset to its working condition, such as taxes, delivery charges, and installation fees. Excluding these items would result in a significant understatement of the initial investment.

10. (C) 0
The Internal Rate of Return is defined as the specific discount rate at which the Net Present Value of all cash flows from a project equals zero. Both metrics utilize the same discounting principles. By setting the NPV to zero, the formula identifies the exact break-even interest rate that the project is expected to generate over its life.

11. (D) Employment generation
Social Cost Benefit Analysis evaluates the total impact of a project on society beyond financial returns. Factors like pollution, health hazards, and species extinction are treated as negative social costs. In contrast, employment generation provides a positive contribution to the community's welfare and is therefore classified as a social benefit rather than an adverse impact or cost.

12. (C) Sum of discounted cash inflows divided by initial cash outlay
The Profitability Index is a relative measure used to evaluate the attractiveness of an investment project. It is calculated by dividing the total present value of future discounted cash inflows by the initial cash outlay required for the project. This ratio helps decision-makers determine the value created per unit of currency invested during the project setup phase.

13. (A) It considers discounted cash flow instead of simple cash flows
The discounted payback period method improves upon the simple payback method by incorporating the time value of money. It determines the time required to recover the initial investment using the present value of future cash flows rather than nominal amounts. This provides a more realistic assessment of risk and the actual timeframe needed for complete financial recovery of costs.

14. (C) NPV >= 0
The standard decision rule for the Net Present Value method requires that a proposal be accepted if the value is zero or positive. A positive result indicates that the project is expected to generate returns exceeding the cost of capital, thereby increasing shareholder wealth. Conversely, a negative value suggests that the investment will decrease the total firm value.

15. (D) Freehold land
Working capital represents the funds used for the day-to-day operations of a business, typically consisting of current assets like raw materials, work in progress, and receivables. Freehold land is classified as a fixed asset because it is a long-term investment that provides rights for a lifetime and is not consumed during the normal business operating cycle.

16. (A) Separating the investment side from the finance side
The separation principle in capital budgeting dictates that the evaluation of a project's investment potential should be kept distinct from how the project is financed. This involves separating the cash flows related to assets and operations from the costs associated with interest and debt servicing, allowing managers to assess the project's intrinsic profitability independently of its funding source.

17. (A) Inflows are compounded at the IRR to find total terminal value
The Modified Internal Rate of Return is designed to address limitations of the standard IRR. A key error is assuming inflows are reinvested at the project's IRR; instead, they should be compounded at the cost of capital. MIRR calculates a single value for a project by finding the terminal value of all cash inflows using the hurdle rate.

18. (A) =MIRR(...)
Microsoft Excel provides specialized financial functions to assist in project evaluation and capital budgeting. The specific inbuilt function used to compute the Modified Internal Rate of Return for a series of periodic cash flows is the MIRR function. This tool helps analysts avoid complex manual iterations when determining

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37. (A) Company C invests in returns higher than shareholders could achieve
Company C follows a wealth-maximization strategy by reinvesting its earnings into business opportunities that offer higher returns than what shareholders could obtain by investing elsewhere on their own. This approach distinguishes it from companies that merely replace equipment or distribute all earnings. Ongoing expansion continues as long as these lucrative, high-return possibilities exist to increase the total firm value.

38. (B) P-1, Q-3, R-4, S-2
Social Cost Benefit Analysis involves categorizing various project impacts. Adverse impacts include environmental damage like the loss of mangroves. Benefits are positive outcomes such as fuel savings and improved living standards. The net result criterion requires that benefits exceed costs. Finally, evaluating bodies include government entities and local authorities who assess whether the project provides a net social gain.

39. (B) Only Statement II is correct
The payback period method is a simple tool used to determine how quickly an investment is recovered. A shorter recovery period is generally preferred as it indicates lower risk and a better chance of achieving future profitability. However, the basic version of this method is flawed because it fails to incorporate the time value of money or consider subsequent profits.

40. (A) P-3, Q-1, R-2, S-4
Different corporate behaviors lead to distinct financial consequences. A company distributing all earnings will eventually shrink as assets are not replaced. Only replacing deteriorating equipment causes a firm to miss valuable growth opportunities. In contrast, investing in high-return possibilities increases shareholder wealth. Continuous expansion is sustainable for companies like Company C as long as they find and exploit lucrative investment chances.

41. (B) II and III
Social Cost Benefit Analysis considers both the advantages and disadvantages of public projects. Benefits such as fuel savings and ease of travel are positive factors. If the net result of all positive and negative impacts is at least equal to the project cost, the proposal is considered beneficial. However, adverse impacts like pollution are assigned negative values, not positive ones.

42. (C) A bird in hand is better than two in the bush.
The concept of Net Present Value is rooted in the time value of money, which suggests that receiving a specific sum today is more valuable than receiving the same amount in the future. This principle is often summarized by the phrase "a bird in hand is better than two in the bush," emphasizing the importance of present certainty over future expectations.

43. (B) Net Present Value - Considers all future cash flows discounted at expected return rate
Project appraisal methods vary significantly in their approach and focus. The Net Present Value method is characterized by its consideration of all future cash flows, which are discounted at an expected rate of return to determine the project's current worth. This contrasts with methods like the payback period, which ignores later cash flows, or ARR, which focuses on profits.

44. (A) P-4, Q-1, R-3, S-2
Cash flow elements in a project serve different roles throughout its life cycle. The initial investment includes capital outlays and working capital needed for setup. Operating cash flows consist of daily operational inflows and outflows. Terminal cash flow represents the net money recovered when assets are liquidated at the end. Environmental costs involve expenses for pollution prevention or remedial actions.

45. (B) II and III
The Accounting Rate of Return method faces several criticisms. It assumes assets outlive their rated lives, leading to uncertainty in long-term DCF estimates. Furthermore, it contains an internal inconsistency because the numerator represents returns for owners, while the denominator includes both equity and debt capital. Unlike DCF methods, the ARR is profit-centric rather than being focused exclusively on cash flows.

46. (B) Net inflow from realization of assets upon liquidation at end of life
The terminal element of a project's cash flow represents the net financial result at the very

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83. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Management strategies for Company C are designed to increase shareholder wealth by reinvesting earnings into opportunities that yield high returns. By selecting all possibilities that generate a return exceeding what shareholders could earn individually, the company ensures that the value of the firm grows over time. This alignment of investment decisions with shareholder interests makes both the assertion and the reason completely true.

84. (C) Third principle
The third principle of project cash flow estimation emphasizes the importance of using post-tax cash flows for all evaluations. By strictly deducting estimated tax payments from her projections, the finance manager at Alpha Manufacturing is ensuring that the analysis reflects the actual net cash available to the firm. This practice avoids the inaccuracies associated with ignoring mandatory tax obligations in capital budgeting.

85. (D) Assertion (A) is false, but Reason (R) is true.
Working capital is defined as the difference between current assets and current liabilities. When a business experiences an increase in its working capital requirements, it means more funds are being tied up in inventory or receivables. This represents a net cash outflow rather than an inflow. Therefore, while the definition provided in the reason is true, the assertion about cash inflow is false.

86. (B) I, III, and IV
The Profitability Index is a valuable tool for ranking projects when capital is scarce. It is also known as the value investment ratio. An index below one signals that a project is unprofitable. However, the calculation involves dividing the present value of future cash flows by the initial investment, not the other way around. Thus, the second statement is incorrect while others are true.

87. (C) Rs. 78,000
To calculate the Cash Inflow After Tax for Beta Corp, start with the Earning After Tax of twenty-eight thousand rupees. Since depreciation is a non-cash expense that was previously deducted, it must be added back to find the total cash flow. Adding the fifty thousand rupees of depreciation to the EAT results in a total annual Cash Inflow After Tax of seventy-eight thousand rupees.

88. (B) I, II, IV, and V
Capital investment decisions require estimating incremental cash flows, including sales, costs, and changes in working capital due to inventory or receivables. While NPV maximizes owner wealth, the discounted payback method does not. IRR remains risky for mutually exclusive projects. In modern practice, businesses rely heavily on these discounted cash flow techniques. Consequently, only the statement regarding NPV and discounted payback is incorrect.

89. (B) Separation principle
The separation principle is a fundamental rule in capital budgeting that requires the investment side of a project to be evaluated independently from its financing side. By separating the assets needed for operations from the interest costs associated with debt, the manager at Alpha Manufacturing ensures that the project's intrinsic profitability is assessed without being obscured by the specific method used to raise funds.

90. (D) Assertion (A) is false, but Reason (R) is true.
Not all duties paid on an asset acquisition are included in its final cost. The Input Tax Credit mechanism allows firms to offset the duty paid against future taxes collected from customers. Therefore, these recoverable amounts are not considered part of the long-term asset cost. While the reason explains this credit system correctly, the assertion claiming all duties are strictly included is false.

91. (C) 1.40
The Profitability Index for Project Y is determined by taking the total discounted cash inflows and dividing them by the discounted cash outflow. For this project, the inflows are one hundred and sixty-eight thousand rupees and the outflow is one hundred and twenty thousand rupees. Dividing one hundred and sixty-eight thousand by one hundred and twenty thousand results in a Profitability Index of one point four zero.

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56. (A) Return belongs to owners, but denominator includes total debt and equity
The internal inconsistency of the Accounting Rate of Return method arises from the mismatched components of its ratio. The numerator, representing accounting profit, is the return belonging solely to the owners or equity holders. However, the denominator typically includes the total investment, which consists of both debt and equity. This mismatch creates a logical flaw in the percentage return calculation.

57. (A) Only I
Estimating project cash flows requires a clear distinction between different financial elements. Under the separation principle, the cost of the assets belongs on the investment side, while interest and financing costs belong on the financing side. Fixed and variable cost distinctions are part of the incremental principle. Furthermore, tax payments must never be ignored, making post-tax flows the standard for reliability.

58. (A) P-3, Q-4, R-2, S-1
Different types of assets involve various cost components. Freehold land costs include stamp duties, legal fees, and leveling expenses. Factory building costs cover acquisition, construction, or lease additions. Plant and machinery costs involve the purchase price, freight, and installation. Intangible assets consist of registration fees for patents and trademarks. Understanding these components is essential for calculating the total initial investment.

59. (C) Both statements are correct
Working capital is a vital component of business operations, encompassing current assets like raw materials, work in progress, and finished goods. Financing these requirements typically involves a mix of sources. Promoters must provide a portion as a margin, while the remaining balance, often around seventy-five percent, is sourced from bank loans. Both statements accurately describe the components and financing of working capital.

60. (A) P-3, Q-4, R-1, S-2
Investment appraisal methods use specific formulas and rules. The Profitability Index is the ratio of discounted inflows to initial outlay. The NPV rule suggests accepting projects with a value of zero or more. The IRR rule advises acceptance if the rate exceeds the cost of capital. Finally, the discounted payback period uses present values to find how long it takes to recover.

61. (A) I, II, IV, and V
Key investment appraisal concepts include the payback period for recovery time and discounted payback for time-valued recovery. NPV represents the actual increase in the entity's value and is the preferred method for selecting among mutually exclusive projects. While payback methods are useful for assessing risk, they do not definitively confirm if a project maximizes owner wealth, unlike the robust NPV method.

62. (C) Assertion (A) is true, but Reason (R) is false.
The Modified Internal Rate of Return is considered more realistic than the traditional IRR because it addresses flaws in reinvestment assumptions. While the standard IRR assumes that interim cash flows are reinvested at the project's own IRR, MIRR correctly assumes they are reinvested at the company's cost of capital. Therefore, while the assertion is true, the reason provided is factually incorrect.

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63. (A) I, II, and III
Total cost analysis involves several critical pillars. Necessity analysis ensures every asset is essential. Leveraging examines financing options like leasing versus buying. Environmental impact assessments focus on minimizing pollution and maintaining clean surroundings. Sustainability ensures long-term operational viability rather than just short-term gains. Consequently, the first three points are correct, but the fourth point's focus on short-term profitability over long-term operations is incorrect.

64. (A) Rs. 28,000
To find the annual Earning After Tax for Beta Corp, first calculate the Earning Before Tax by subtracting the fifty thousand rupee depreciation from the ninety thousand rupee earnings. This leaves forty thousand rupees. Applying the thirty percent tax rate results in twelve thousand rupees in tax. Deducting this tax from the EBT gives a final Earning After Tax of twenty-eight thousand rupees.

65. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Analysts should always prioritize post-tax cash flows when evaluating project feasibility because taxes represent unavoidable cash outflows that significantly impact net profitability. Furthermore, the discount rate applied to pre-tax flows is often unreliable and doesn't reflect the actual cost of capital. Since tax payments directly reduce the wealth generated for shareholders, both the assertion and its supporting reason are entirely accurate.

66. (B) Rs. 80,000
For Gamma Ltd to recover its initial cash outlay of three hundred thousand rupees, it must track cumulative inflows. By the end of the second year, the company has recovered two hundred and twenty thousand rupees (one hundred thousand in year one and one hundred and twenty thousand in year two). Therefore, eighty thousand rupees remain to be recovered during the third year.

67. (B) I, II, and IV
Forecasting working capital involves analyzing the business operating cycle and identifying funding gaps between payments and collections. Funds are typically sourced from promoters and bank loans, as well as payables to creditors. However, working capital is specifically used for short-term operational needs like inventory and receivables, rather than for meeting the requirements of fixed, long-term manufacturing assets like buildings.

68. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The Net Present Value method is highly effective because it explicitly incorporates the time value of money into capital budgeting. By applying a risk-adjusted discounting factor to future cash flows, NPV brings the calculated rate of return closer to economic reality. This process ensures that managers account for the fact that present funds are worth more than future receipts when making investments.

69. (A) Incremental principle
The incremental principle is applied when a manager separates the costs that occur regardless of factory operations from those specifically tied to running the project. This principle ensures that only the relevant, additional costs and revenues generated by the investment are used in the evaluation. By focusing on these changes, the firm can more accurately assess the project's true financial impact.

70. (B) I, III, IV, and V
The Internal Rate of Return is found by setting the Net Present Value to zero. It is a complex calculation that often involves trial and error or scenario analysis. Limitations include the possibility of multiple rates with intermittent flows. For a reliable assessment, IRR must be compared against the cost of capital. However, it is not easily generated without iterative mathematical steps.

71. (C) Rs. 2,40,000
Using the Average Investment Basis for Delta Inc requires averaging the initial capital outlay and the salvage value. With an initial investment of four hundred thousand rupees and a salvage value of eighty thousand rupees, the sum is four hundred and eighty thousand rupees. Dividing this total by two results in an average investment of two hundred and forty thousand rupees for the project.

72. (A) I, II, and III
The Accounting Rate of Return uses average accounting information to estimate returns over several years, making it highly accessible to the business community. It gives more weight to distant benefits than the payback period, which ignores them entirely. However, a major limitation is that it does not account for the time value of money, as it treats all profits as being equal regardless of timing.

73. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
A project can indeed have multiple Internal Rates of Return, which complicates the decision-making process. This mathematical phenomenon occurs when a project features non-conventional or interruptive cash flow patterns, such as a mix

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of inflows and outflows over time. These changes in the direction of cash flow create multiple solutions where the NPV equals zero, making both the assertion and reason true.

74. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Freehold land is generally more expensive than leased land because it provides the owner with permanent, lifetime rights to enjoy and utilize the property. This ownership is unrestricted by the time limits found in lease agreements. Therefore, the higher cost reflects the long-term value and absolute control associated with freehold status, making both the assertion and the provided reason fundamentally correct.

75. (C) Rs. 2,20,000
To determine the cumulative cash inflow for Gamma Ltd at the end of the second year, the annual inflows for Year 1 and Year 2 must be added together. The first year provides one hundred thousand rupees, and the second year adds one hundred and twenty thousand rupees. This results in a total cumulative cash inflow of two hundred and twenty thousand rupees.

76. (B) I, II, and IV
Calculating Cash Inflow After Tax follows a logical sequence. First, depreciation and cash costs are deducted from sales to find the taxable earning. Next, tax is subtracted from this earning before tax to find the earning after tax. Finally, depreciation is added back to the earning after tax because it is a non-cash expense. Subtracting depreciation at the final stage is incorrect.

77. (B) Rs. 50,000
Beta Corp uses straight-line depreciation for a machine costing two hundred thousand rupees with a four-year economic life. To find the annual depreciation, the initial cost is divided by the number of years in the asset's life. In this case, dividing two hundred thousand by four results in an annual depreciation expense of fifty thousand rupees for each year of the machine's operation.

78. (B) I, II, IV, and V
The Modified Internal Rate of Return corrects the flaws of the standard IRR by avoiding unrealistic reinvestment assumptions. It compounds inflows at the cost of capital to find a terminal value. Any negative cash flows are treated as costs and discounted to the present. The MIRR is then the rate that equates this terminal value to the present value of all project costs.

79. (D) Assertion (A) is false, but Reason (R) is true.
A Profitability Index (PI) less than 1 indicates that the present value of future cash flows is lower than the initial investment, meaning the project is not profitable, so the assertion is false. However, the reason is correct because PI is calculated as the ratio of present value of future cash flows to the initial investment.

80. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The payback period method is limited because it focuses solely on how quickly the initial investment is recovered. By design, it ignores all cash flows that occur after the payback point is reached, which means it completely overlooks the overall profit potential of the project over its full life. Consequently, both the assertion and the reason are true and logically connected.

81. (B) 2.8 years
Gamma Ltd needs eighty thousand rupees more to recover its initial outlay after the first two years. With a third-year inflow of one hundred thousand rupees, and assuming uniform cash flows, it takes zero point eight years (eighty thousand divided by one hundred thousand) to recover the remaining amount. Therefore, the exact payback period for the project is two point eight years.

82. (A) I, II, III, and V
Accurate project cash flow estimation involves several key elements. Initial investments include capital outlays and working capital. Terminal flows represent the net realizations upon liquidation. The incremental principle distinguishes fixed from variable costs, and the consistency principle must always be maintained. However, financing interest costs are strictly separated from the investment side and do not flow into it under the separation principle.

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end of its economic life. This includes the inflow generated from the salvage or realization of assets during liquidation, minus any costs associated with shutting down. It is distinct from the initial setup costs and the ongoing operating cash flows generated during the project's duration.

47. (B) Only Statement II is correct
Capital rationing describes a situation where a business must limit its investment activities due to a shortage of available funds. This restriction can be implemented through various means, such as setting a fixed budget or requiring a higher minimum internal rate of return for project approval. It stands in direct contrast to scenarios where there are no limits on capital supply.

48. (A) P-4, Q-1, R-2, S-3
Estimating project cash flows relies on several fundamental principles. The separation principle keeps investment and financing cash flows distinct. The incremental principle focuses on the difference between fixed and variable costs. The third principle emphasizes always using post-tax cash flows for accuracy. Finally, the consistency principle requires maintaining a uniform and logical basis for all calculations throughout the evaluation.

49. (A) MIRR < Cost of capital - Accept the proposal
Project evaluation criteria provide clear rules for accepting or rejecting proposals. A project should be accepted if its Net Present Value is positive, its Internal Rate of Return exceeds the cost of capital, or its Profitability Index is greater than one. Conversely, if the Modified Internal Rate of Return is less than the cost of capital, the proposal should be rejected.

50. (A) P-4, Q-1, R-2, S-3
Calculating the Modified Internal Rate of Return involves several specific variables. PVC represents the present value of all costs, while TV stands for the terminal value of expected cash inflows. The discount rate, denoted as r, is typically the cost of capital. Finally, n represents the number of periods over which the project's cash flows are distributed and analyzed.

51. (A) I and II
The Internal Rate of Return assumes that interim cash inflows are reinvested at the same rate as the project's IRR, which is often unrealistic. The Modified Internal Rate of Return corrects this by assuming reinvestment at the cost of capital. Additionally, MIRR treats negative cash flows as costs. However, ranking mutually exclusive projects of different sizes remains complex for MIRR.

52. (B) II, I, III
The process of determining the Modified Internal Rate of Return follows a specific chronological sequence. First, the analyst must calculate the present value of all project costs using the cost of capital as the discount rate. Second, the terminal value of all expected cash inflows is determined. Finally, these values are used to solve the equation that identifies the MIRR.

53. (B) P-2, Q-3, R-4, S-1
Total cost analysis involves several evaluative criteria. Necessity ensures the acquired asset is truly required in its specific form. Competitive bargaining focuses on securing the best price during procurement. Leveraging involves considering different financing alternatives, such as buying versus leasing. Growth considerations ensure that costs are futuristic and support capacity enhancement. Together, these points ensure a comprehensive financial and operational assessment.

54. (B) Only Statement II is correct
In capital budgeting and NPV analysis, working capital represents the difference between current assets and current liabilities. Since current assets like inventory and receivables usually exceed current liabilities like payables, an increase in working capital requirements represents a net cash outflow for the business. This investment of funds is necessary to support the operational needs of the new project expansion.

55. (A) Version 3 - Average Investment Basis
The Accounting Rate of Return can be calculated using different versions depending on the chosen investment base. Version 3 of the ARR formula specifically utilizes the average investment basis. This approach typically considers the average book value of the asset over its life, which is often calculated by averaging the initial cost and the salvage value of the project assets.

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92. (B) Rs. 1,67,260
To find the total discounted cash inflow for Epsilon Logistics, multiply each year's cash flow by its respective discount factor. Year one yields sixty-three thousand six hundred and thirty. Year two contributes sixty-six thousand eighty. Year three adds thirty-seven thousand five hundred and fifty. Summing these three present values results in a total discounted cash inflow of one hundred and sixty-seven thousand two hundred and sixty.

93. (C) 25%
The Accounting Rate of Return for Delta Inc is calculated by dividing the annual profit after tax by the average investment. With an Earning After Tax of sixty thousand rupees and an average investment of two hundred and forty thousand rupees, the ratio is zero point two five. This results in an ARR of twenty-five percent when using the average investment basis for evaluation.

94. (C) As an adverse impact having a negative value.
In the framework of Social Cost Benefit Analysis, any negative impact a project has on the environment or community is treated as a social cost. The destruction of local flora by the proposed bridge is a clear example of such an adverse impact. Consequently, it is assigned a negative value to be balanced against the project's various social and economic benefits during evaluation.

95. (A) Accept the proposal because NPV >= 0.
Epsilon Logistics should accept the proposal based on the Net Present Value decision rule. The project's total discounted cash inflow is one hundred and sixty-seven thousand two hundred and sixty rupees, which exceeds the initial investment of one hundred and fifty thousand rupees. Since the resulting NPV is positive at seventeen thousand two hundred and sixty rupees, the project is expected to add value.

96. (A) 15%
If Delta Inc calculates its Accounting Rate of Return based strictly on the total initial investment, the formula uses the starting outlay as the denominator. Dividing the annual profit after tax of sixty thousand rupees by the initial investment of four hundred thousand rupees results in a ratio of zero point one five. This translates to an Accounting Rate of Return of fifteen percent.

97. (A) Project Y, because the Profitability Index is higher.
When capital rationing is in effect and funds are limited, projects should be prioritized based on their Profitability Index. This ratio identifies which project generates the most value per rupee of investment. Since Project Y has a higher Profitability Index of one point four zero compared to Project X's one point two zero, Zeta Tech should prioritize Project Y to maximize wealth creation.

98. (C) 1.20
The Profitability Index for Project X is calculated by dividing the discounted cash inflows by the discounted cash outflow. Given that Project X generates nine hundred and sixty thousand rupees in inflows from an eight hundred thousand rupee outflow, the calculation is nine hundred and sixty thousand divided by eight hundred thousand. This results in a Profitability Index of exactly one point two zero.

99. (B) Rs. 17,260
The Net Present Value for the proposal at Epsilon Logistics is found by subtracting the initial investment from the total present value of future cash inflows. After discounting the inflows at ten percent, the total present value is one hundred and sixty-seven thousand two hundred and sixty rupees. Subtracting the initial one hundred and fifty thousand rupee outlay leaves a positive NPV of seventeen thousand two hundred and sixty.

100. (D) To consider the project as beneficial and proceed.
Under the principles of Social Cost Benefit Analysis, a project is considered beneficial if the total social benefits outweigh the social costs. If the net result of these factors is equal to or greater than the actual financial cost of the bridge project, it indicates a net gain for society. In such cases, the municipality should proceed with the project as it is socially justified.

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1. The difference between the expected return on an investment and the risk-free rate
2. A measure of the co-variance between the rate of return on a company's stock and the overall market return
3. The expected rate of return on a security with no inherent risks
4. The general expected return of the market as a whole

(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

Oct/Nov 2016

43. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): Evaluation of an overseas project involves specific issues that differentiate it from the evaluation of domestic projects.
Reason (R): The evaluator needs to gather relevant information to analyze workflows, but foreign projects do not require a capital budgeting framework.
Which of the following is correct?
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2019

44. How does the sensitivity to silver prices impact the final expected return calculation in the Omega Investments scenario?
(A) It increases the expected return by 2.4%.
(B) It increases the expected return by 4.0%.
(C) It has no impact on the expected return because the beta is negative.
(D) It decreases the expected return by 2.4%.

Oct/Nov 2007

45. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): In the Home Currency Approach, foreign cash flows are converted into rupees at the prevailing or estimated exchange rate before discounting.
Reason (R): The initial investment in the overseas project is valued at the present spot rate, requiring cash flows to be in the same currency basis for accurate present value calculation.
Which of the following is correct?
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2010

46. Consider the following elements involved in the Capital Asset Pricing Model (CAPM):
I. Cost of Equity
II. Levered Beta
III. Market Risk Premium
IV. Risk-Free Rate
V. Expected return on the market
Which of the above are actively utilized in the standard calculation formula for the Cost of Equity under CAPM?
(A) I, III, IV, and V only
(B) II, III, IV, and V only
(C) I, II, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2022

47. Based on Nova Corp's data, what is the estimated spot rate of 1 Euro at the end of the first year?
(A) Rs. 91.50
(B) Rs. 92.62
(C) Rs. 94.30
(D) Rs. 95.40

May/June 2014

48. How is the Arbitrage Pricing Theory (APT) fundamentally defined in the context of investment pricing?
(A) A pricing model that strictly limits evaluation to the co-variance of a single security against the S&P 500 index.
(B) An alternative to CAPM utilizing multiple macroeconomic variables affecting systemic risk.
(C) A framework used exclusively to convert spot exchange rates into forward contract rates for trade.

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factors affecting currency valuations and country risk?
(A) I, II, and III
(B) II, III, and IV
(C) I, III, and IV
(D) I, II, III, and IV

Oct/Nov 2015

7. What is the primary objective of capital budgeting when planning expenses on fixed assets?
(A) To maximize short-term accounting profits and minimize immediate tax liabilities
(B) To make long-term decisions regarding sustainable project growth and expected returns
(C) To determine the optimal daily operational budget and ensure working capital availability
(D) To evaluate solely the immediate cash flows required for local expansion initiatives

May/June 2023

8. Match the following classes of investment stocks (List I) with their corresponding descriptions (List II):
List I: (Investment Stocks)
P. Value stock
Q. Growth stock
R. Small cap
S. High P/E
List II: (Descriptions)
1. Low book to market price stock
2. A stock classification based on a high price-to-earnings ratio
3. High book to market price ratio
4. A class based on lower market capitalization
(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-2, R-1, S-4
(D) P-4, Q-3, R-2, S-1

Oct/Nov 2005

9. If the NPV of Zenith Technologies' project is negative in the foreign currency but highly positive in the home currency, what is the most logical deduction supporting project acceptance?
(A) The foreign tax rate was overestimated during initial computations.
(B) The home currency has significantly weakened in comparison to the foreign currency over the project's lifespan.
(C) The straight-line depreciation method failed to capture terminal salvage values.
(D) The foreign inflation rate directly decreased the cost of capital.

May/June 2012

10. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): The forward contract rate needs to be adjusted by the interest rate and the time factor.
Reason (R): Spot rates vary based on the specific mode of currency being utilized, such as travellers' cheques or telegraphic transfers.
Which of the following is correct?
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

11. Which of the following does NOT characteristically yield a better return in foreign investment?
(A) An investment in a country with a stable or strong foreign exchange rate performance
(B) Dividend accumulation plans compared to dividend distribution plans
(C) Investments in well or better managed economies compared to poorly managed ones
(D) Secured assets compared to unsecured assets

May/June 2017

12. Which of the following statements is incorrect regarding the conversion of local currency into a foreign currency?
(A) The prevailing rate at which local currency is converted into a foreign currency is called the spot rate.
(B) Contracting for purchase at a future date requires the adoption of the forward contract rate.
(C) The spot rate remains uniform and constant across all forms or modes of currency such as currency notes, travellers' cheques, and

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CHAPTER 10

Capital Budgeting for International Project Investment Decisions

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Oct/Nov 2016

1. What is the most appropriate method to calculate the forward rate for future currency contracts?

(A) Adding the domestic interest rate to the spot rate and dividing by the time factor

(B) Dividing the spot rate by the premium discount factor over the time until expiration

(C) Subtracting the foreign interest rate from the spot rate and multiplying by the expiration time

(D) Multiplying the spot rate by the ratio of interest rates and adjusting for the time until expiration

May/June 2019

2. Using the interest rate parity condition from the Zenith Technologies scenario, what constitutes the correct ratio to find the expected exchange rate for Year 1 if the current spot rate is denoted by S_0?

(A) $S_0 \times (1 + 0.06) / (1 + 0.10)$

(B) $S_0 \times (1 + 0.08) / (1 + 0.06)$

(C) $S_0 \times (1 + 0.10) / (1 + 0.06)$

(D) $S_0 \times (1 + 0.20) / (1 + 0.10)$

Oct/Nov 2007

3. When an investment or project is set up abroad, how are the expected project projections and cross-currency transactions predominantly characterized?

(A) They are completely isolated from global exchange rate volatility and market shifts.

(B) They are exclusively evaluated using the host country's domestic inflation index.

(C) They require complex spreadsheets updated for various exchange rate fluctuation scenarios.

(D) They eliminate the need to integrate foreign investment cash flows with local flows.

May/June 2010

4. Match the investment instruments (List I) with their respective investment channel categories (List II):

List I: (Investment Instruments)

P. American Depository Receipts (ADRs)

Q. Global Mutual Funds

R. Exchange-Traded Funds (ETFs)

S. Global Depository Receipts (GDRs)

List II: (Investment Channel Categories)

1. Indirect Channel
2. Direct Channel
3. Indirect Channel
4. Direct Channel

(A) P-2, Q-1, R-3, S-4

(B) P-1, Q-4, R-2, S-3

(C) P-3, Q-1, R-4, S-2

(D) P-4, Q-2, R-3, S-1

Oct/Nov 2022

5. What specific benefit does the stability of exchange rates in developed countries provide to international investors?

(A) It guarantees an abnormal rate of return regardless of asset allocation.

(B) It provides safe value and a lesser risk of exchange fluctuations or erosion of investment value.

(C) It eliminates the need for any hedging strategies against global market indices.

(D) It restricts the investment options solely to unlisted government bonds.

May/June 2014

6. Consider the following factors affecting currency valuations and country risk:

I. Embargoes and sanctions

II. Pandemics and fiscal policies

III. Revolts and political turbulence

IV. The choice between ADRs and mutual funds

Which combination represents the correct

May/June 2008

20. Consider the following statements regarding asset allocation in foreign portfolio management:

I. Efficient management relies on selecting the right mix of risk and return to achieve a targeted return during the investment tenure.

II. Required liquidity to quickly honour redemption requests must be taken into account while avoiding idle funds.

III. Securities having high liquidity in the market always create problems at the time of exit.

Which of the statements is/are correct?

(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

Oct/Nov 2025

21. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).

Assertion (A): More liquid the investment, lesser is the return.

Reason (R): Liquidity ensures less risk, and returns are generally correlated with the level of risk undertaken.

Which of the following is correct?

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2011

22. Which of the following is NOT required to adjust the future contract rate when calculating the forward rate?

(A) The spot rate
(B) The historical domestic inflation average of the past decade
(C) The ratio of interest rates
(D) The time until expiration

Oct/Nov 2010

23. Under the Liberalised Remittance Scheme (LRS), what is the maximum equivalent amount an individual in India can annually send abroad?

(A) USD 1,50,000 per FY
(B) USD 2,00,000 per FY
(C) USD 2,50,000 per FY
(D) USD 5,00,000 per FY

May/June 2024

24. Identify the correct pair representing channels for International Portfolio Investment.

(A) Indirect Channel - Foreign Direct Investing (FDI)
(B) Direct Channel - Global Mutual Funds
(C) Indirect Channel - Global Depository Receipts (GDRs)
(D) Direct Channel - American Depository Receipts (ADRs)

Oct/Nov 2012

25. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).

Assertion (A): A separate hedge strategy requires a combination of the world market portfolio, risk-less foreign and domestic currency bonds, and a currency-specific hedge portfolio.

Reason (R): Market index and Exchange rate index are intrinsically linked, meaning exchange rate fluctuations only occur due to stock performance.

Which of the following is correct?

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2025

26. Which of the following statements correctly identifies a key consideration when setting up a project abroad regarding cash flows?

(A) Project cost benefits can never be shared between the overseas outfit and the local entity.
(B) Foreign currency valuation poses no problem if the project implementation time is long.
(C) Import and export rates remain static throughout the project implementation phase.
(D) One has to make a choice about the currency,

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(C) I and III
(D) I, II, and III

May/June 2020

56. What defines the risk-free rate (rf) in the Capital Asset Pricing Model?
(A) The expected return on a security considered to have no inherent risk
(B) The difference between the expected return on an investment and the actual market yield
(C) A measure of the co-variance between the rate of return on a company and the overall market
(D) The rate utilized to completely hedge foreign currency exposure and inflation differentials

Oct/Nov 2011

57. What underlying principle justifies Nova Corp's requirement to estimate the exchange rate for future years when evaluating the project?
(A) To convert foreign flows into rupees for consistency with the initial investment.
(B) Future cash flows are identical in value regardless of currency denomination.
(C) Initial investment in the project is valued at the future expected spot rate.
(D) European tax laws mandate that all foreign investments be discounted using current rates.

May/June 2005

58. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): Using the Arbitrage Pricing Theory (APT), arbitrageurs can take advantage of any deviations from fair market value.
Reason (R): APT considers that the market perfectly prices securities at all times without any systemic deviations.
Which of the following is correct?
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2021

59. Consider the following statements regarding the formula for the risk-adjusted discount rate:
I. The formula to extract the risk premium is derived from the equation: $(1 + r_a) = (1 + r_f) \times (1 + r_p)$.
II. In this formula, ra represents the risk-free discount rate and rf represents the risk-adjusted discount rate.
Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

NODIA

May/June 2015

60. What role does the 4% risk-free rate play in Omega Investments' calculation of the expected return using APT?
(A) It is multiplied by the sum of all risk premiums.
(B) It is the baseline percentage to which factor risk premiums are added.
(C) It is subtracted from the sum of the calculated factor premiums to determine net return.
(D) It is utilized solely to discount future silver prices and gold market indices.

Oct/Nov 2018

61. Arrange the following steps in the correct chronological order to calculate the NPV under the Foreign Currency Approach:
I. Discount the cash inflows in foreign currency, using the risk-adjusted discount rate for foreign currency.
II. Calculate the risk-adjusted discount rate for foreign currency, acceptable to the company.
III. Calculate NPV by subtracting initial investment from the PV.
IV. Convert the initial investment to home currency by multiplying it by the present spot rate.
V. Convert the discounted present value figure to home currency by multiplying it by the present spot rate.
Which of the following sequences is correct?
(A) II, I, V, IV, III
(B) I, II, IV, V, III
(C) II, V, I, III, IV
(D) V, IV, I, II, III

(A) Rs. 93.50
(B) Rs. 94.20
(C) Rs. 95.32
(D) Rs. 96.48

Oct/Nov 2008

35. Using the APT formula for Omega Investments, what is the total expected return of the stock?
(A) 12.3%
(B) 14.5%
(C) 16.4%
(D) 18.0%

May/June 2022

36. Identify the correct statement regarding the Home Currency Approach for evaluating overseas projects.
(A) All flows are converted into home currency using estimated spot rates at the flow time.
(B) Cash flows remain in the foreign currency throughout the discounting process.
(C) Cash flows are discounted using the foreign risk-adjusted discount rate.
(D) The initial investment is converted into foreign currency by applying a fixed historical exchange rate.

Oct/Nov 2023

37. Which of the following plans typically provides higher returns on an international investment?
(A) Dividend accumulations or reinvestment plans
(B) Plans where dividends are regularly distributed to all shareholders
(C) Investments solely in zero-yield treasury bonds and liquid notes
(D) Short-term investments subjected to maximum price controls and limits

May/June 2018

38. Which of the following is typically a reason for establishing a project abroad as part of international capital budgeting?
(A) To strictly maintain operations within domestic borders and local regulatory frameworks.
(B) Reducing the overall liquidity of the corporate investment portfolio through fixed assets.
(C) Avoiding the formulation of plans for future projects or expansion entirely.
(D) Tapping foreign markets for consumption, raw materials, or international capturing.

Oct/Nov 2017

39. Using the formula provided in the Nova Corp scenario, what is the risk premium (rp) required by the company in India?
(A) 5.00%
(B) 5.30%
(C) 6.00%
(D) 8.30%

May/June 2006

40. Identify the correct statement regarding the factors used in the Arbitrage Pricing Theory (APT).
(A) APT strictly ignores domestic inflation rates and gold prices during the valuation process.
(B) APT factors are derived purely from the salvage value of physical fixed assets held.
(C) APT requires the mandatory inclusion of the Liberalised Remittance Scheme limit in its formula.
(D) APT utilizes factors like GDP, inflation, stock indices, gold prices, and interest rates.

Oct/Nov 2014

41. What is the most appropriate description of the Foreign Currency Approach for evaluating overseas projects?
(A) Cash flows are converted to home currency immediately, discounted using the foreign risk-adjusted rate, and then converted back.
(B) Flows remain in foreign currency, are discounted at the foreign rate, then converted at the spot rate.
(C) Cash flows remain in the home currency, are discounted using the domestic risk-free rate, and no conversion is applied.
(D) The initial investment is discounted backwards from the final year using the domestic risk-free rate.

May/June 2016

42. Match the elements of the CAPM (List I) with their respective descriptions (List II):
List I: (CAPM Elements)
P. Beta (β)
Q. Market Risk Premium (rm - rf)
R. Expected return on the market (rm)
S. Risk-Free Rate (rf)
List II: (Descriptions)

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telegraphic transfers.
(D) Selling local currency to buy a foreign currency at a future date may involve a discount to the local currency value due to the payment of a future premium.

Oct/Nov 2009

13. Based on the Zenith Technologies scenario, how is the net proceeds per share calculated for the cost of capital computation?
(A) Subtracting the issue cost percentage from the trading price
(B) Subtracting the expected dividend from the trading price
(C) Multiplying the trading price by the expected growth rate
(D) Adding the face value to the expected dividend

May/June 2020

14. Which of the following correctly describes the principle of diversification in an international scenario?
(A) Concentrating all investible resources in a single domestic security to maximize yields.
(B) Avoiding all foreign treasury bills to maintain high liquidity in the home currency units.
(C) Building a multi-market portfolio of securities to achieve better risk-return trade-offs.
(D) Investing solely in foreign real estate to bypass domestic tax liabilities and regulations.

Oct/Nov 2011

15. Which of the following elements is conceptually included within country risk?
(A) Fluctuations in the spot rate of currency notes and various telegraphic transfer instruments
(B) Changes in the market price of high P/E stocks due to quarterly earnings reports
(C) The selection of a straight-line depreciation method over a written-down value accounting method
(D) Political developments, trade restrictions, and governmental changes

May/June 2005

16. Which of the following arises out of the specific issues faced by an international entity compared to a domestic businessman?
(A) Differences in legal systems, currency systems, and trade barriers
(B) Uniformity in global work culture
(C) Standardization of accounting standards
(D) Predictability of foreign political stability

Oct/Nov 2021

17. Identify the incorrect statement regarding channels of international investment.
(A) Direct Channel - Exchange-Traded Funds (ETFs) acting as an intermediary
(B) Intermediary investment - Mutual Funds
(C) Direct Channel - Foreign Direct Investment (FDI)
(D) Investee company using funds for own financial requirements - FDI route

May/June 2015

18. Consider the following statements regarding the computation of foreign currency discount rates:
I. If an entity wants to sell local currency to buy a foreign currency at a future date, there will be a discount to the value of the local currency.
II. A future premium must be paid when selling local currency to buy a foreign currency at a future date.
Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

NODIA

Oct/Nov 2018

19. In the Zenith Technologies scenario, when calculating the realization on the disposal of the land net of tax at the end of the project, which of the following sequences is correct?
(A) Deduct land cost from sale value, apply tax to sale value, and deduct tax from initial cost.
(B) Apply the tax rate directly to the initial land cost and subtract it from the final sale value.
(C) Add the depreciation to the sale value and deduct the capital gain tax from the total result.
(D) Subtract land cost from sale value for gain, apply tax to gain, and deduct this from sale value.

(D) A strategy focusing solely on the dividend accumulations of foreign direct investments and bonds.

Oct/Nov 2015

49. Consider the following variables used in calculating the risk-adjusted discount rate for overseas projects:

I. The risk-adjusted discount rate required by the company
II. The risk-free discount rate in the foreign country
III. The risk-free discount rate in the home country
IV. The calculated risk premium acceptable to the company

Which of the variables are utilized to arrive at the risk-adjusted discount rate for the foreign currency?

(A) I, II, and III only
(B) II, III, and IV only
(C) I, II, and IV only
(D) I, III, and IV only

May/June 2023

50. Once Omega Investments calculates the expected return of 16.4% using APT, how would arbitrageurs utilize this information?

(A) They will immediately liquidate all treasury bonds regardless of the current market price.
(B) They will alter the risk-free rate of the central bank to match the expected return.
(C) They will exploit deviations if the actual market return differs from this value.
(D) They will convert the expected return directly into a foreign currency spot rate value.

Oct/Nov 2005

51. Consider the following actions under the Home Currency Approach:

I. Convert all cash flows of the project into the home currency by applying the estimated spot rate at the time of the cash flow.
II. Discount the converted cash flows using the domestic risk-adjusted discount rate.
III. Subtract the initial investment in the home currency from the total present value to find the NPV.

Which combination of actions is correct?

(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

May/June 2012

52. Consider the following statements regarding Arbitrage Pricing Theory (APT):

I. APT takes into account the thinking that the market sometimes misprices securities.
II. APT relies on a non-linear relationship between a single macroeconomic factor and an asset's expected return.

Which of the statements is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2024

53. In the Omega Investments scenario, what is the specific calculated premium contribution of the GDP growth factor to the overall expected return?

(A) 2.0%
(B) 2.5%
(C) 5.0%
(D) 0.5%

May/June 2017

54. Applying the calculated risk premium for Nova Corp, what is the applicable risk-adjusted discount rate for cash flows in Euros?

(A) 8.00%
(B) 8.15%
(C) 9.15%
(D) 10.30%

Oct/Nov 2009

55. Consider the following statements regarding project evaluation:

I. It is a strategy used to determine whether a project, programme, or policy is going to be successful and what impact it shall have.
II. It may lead to changes being made to internal workflows and the identification of patterns among the intended audience.
III. It results in the formulation of plans for future projects or the reporting of value to external stakeholders.

Which combination of statements is correct?

(A) I and II
(B) II and III

NODIA

on the basis of which one is dominant from the project point of view.

Oct/Nov 2006

27. How is exchange risk defined in the context of foreign investment?
(A) Investment value loss in local currency due to home currency depreciation or foreign appreciation
(B) The risk of a foreign country imposing political sanctions on domestic trade and commerce
(C) The uncertainty of stock market indices changing solely due to internal company performance
(D) The risk that a host country will change its accounting standards and reporting methods overnight

May/June 2021

28. How is International Portfolio Investment (IPI) defined?
(A) Investment into foreign securities like Treasury bills, mutual funds, and equities
(B) Investment solely in physical infrastructure and real estate in a foreign territory
(C) Direct acquisition of managerial control in a foreign multinational corporation
(D) Remittance of funds exclusively for the purpose of trade settlements between entities

Oct/Nov 2019

29. For the office complex in the Zenith Technologies scenario, how does depreciation impact the annual cash flows over the two-year period?
(A) It is subtracted from the net profit and excluded from the final cash flow calculation steps.
(B) It is treated as a terminal cash inflow only at the end of the project's operational life.
(C) It is deducted for tax purposes, then added back to profit after tax to find net cash flow.
(D) It is added to the variable operating costs to directly determine the total capital gains tax.

May/June 2013

30. Which of the following incorrectly identifies a barrier to international portfolio investment?
(A) Foreign countries may impose price controls to achieve fiscal and monetary policy objectives.
(B) Language barriers can result in a disadvantage in obtaining quick and reliable information.
(C) Political or economic events can create uncertainty, especially in long-term investments.
(D) The availability of internationally listed stocks completely removes all capital flow impediments.

Oct/Nov 2020

31. Which concept differentiates Arbitrage Pricing Theory (APT) from the Capital Asset Pricing Model (CAPM)?
(A) APT depends entirely on a single market index to measure systemic risk.
(B) APT assumes that future cash flows can always be accurately forecasted without derivative methods.
(C) APT uses a linear relationship between return and multiple macroeconomic factors.
(D) APT eliminates the need for any risk-free rate of interest in its internal calculations.

May/June 2007

32. Which of the following is NOT an issue specifically highlighted as being involved in the evaluation of overseas projects compared to domestic projects?
(A) Estimating the exchange rate in future years of the project's life
(B) Applying standard domestic depreciation to eliminate all foreign tax burdens.
(C) Calculation of the relevant risk-adjusted discount rate for the foreign country
(D) Converting foreign currency cash flows into rupees at the prevailing exchange rate

Oct/Nov 2013

33. In the context of calculating beta for CAPM, which index has traditionally been used as a stand-in for the market?
(A) Dow Jones Industrial Average
(B) S&P 500 index
(C) NASDAQ Composite
(D) FTSE 100 index

May/June 2009

34. Continuing with Nova Corp's data, what is the estimated spot rate of 1 Euro at the end of the second year?

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May/June 2008

62. Pinnacle Industries computes an IRR of 24% for the foreign cash flows under the Foreign Currency Approach. Based on their acceptable US$ risk-adjusted discount rate of 9%, what is the correct interpretation?
(A) The proposal is acceptable as the IRR exceeds the risk-adjusted discount rate.
(B) The project must be abandoned because the IRR exceeds the required risk-adjusted discount rate.
(C) The IRR is invalid because it was not calculated using home currency cash flows.
(D) The project is marginally acceptable but requires recalculation using the domestic risk-free rate.

Oct/Nov 2025

63. Identify the incorrect statement concerning the Pay-back period method under the Home Currency Approach.
(A) It requires discounting the cash inflows using the domestic risk-adjusted discount rate before finding the period.
(B) It requires estimating the spot rate for each year of the project's life.
(C) It requires converting foreign currency cash inflows into home currency inflows.
(D) It finds the period during which cash inflows in home currency are equal to the initial investment in home currency.

May/June 2011

64. Which of the following is NOT explicitly mentioned as a factor causing exchange rate fluctuations?
(A) Stock performance
(B) Economic growth
(C) Uniform global weather patterns
(D) Political turbulence or instability

Oct/Nov 2010

65. Consider the following elements involved in the NPV method using the Foreign Currency Approach:
1. Calculation of the risk-adjusted discount rate for the foreign currency
2. Discounting cash inflows in foreign currency
3. Conversion of the discounted value to home currency using the present spot rate
4. Subtracting the initial investment in home currency from the present value

Which combination correctly reflects the procedural steps of this method?
(A) 1 and 2 only
(B) 2, 3, and 4 only
(C) 1, 3, and 4 only
(D) 1, 2, 3, and 4

NODIA

May/June 2024

66. Match the types of risks or factors (List I) with their associated contexts (List II):
List I: (Risks or Factors)
P. Country Risk
Q. Exchange Risk
R. Liquidity
S. Dividend accumulations
List II: (Associated Contexts)
1. Value going down due to local currency depreciation
2. Involves political developments, sanctions, and changes of governments
3. Provides higher returns compared to distributions
4. Ensures less risk in an investment
(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

Oct/Nov 2012

67. Match the evaluation approaches (List I) with their defining characteristics (List II):
List I: (Evaluation Approaches)
P. Home Currency Approach - Conversion of cash flows
Q. Foreign Currency Approach - Discounting rate used
R. Home Currency Approach - Discounting rate used
S. Foreign Currency Approach - Final present value conversion
List II: (Characteristics)
1. Domestic risk-adjusted discount rate
2. Actual/estimated spot rate at the time of the cash flow
3. Present spot rate applied to the discounted total
4. Foreign risk-adjusted discount rate
(A) P-2, Q-4, R-1, S-3
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2025

68. When Pinnacle Industries calculates the NPV using the Foreign Currency Approach, which spot rate is strictly applied to convert the discounted present value of the US$ cash inflows into rupees?
(A) The estimated spot rate at the end of year 4
(B) The present spot rate of Rs. 85 per US$
(C) The average of the estimated spot rates over the four years
(D) The historical spot rate from the previous fiscal year

Oct/Nov 2006

69. What does OECD stand for in the context of international trade practices?
(A) Organisation for Economic Cooperation and Development
(B) Organization for External Commerce and Development
(C) Office of Economic Control and Deregulation
(D) Organization for European Currency and Debt

May/June 2021

70. Identify the incorrect statement regarding the evaluation methods under the Foreign Currency Approach.
(A) Pay-back period method - Finds the period where foreign cash inflows equal initial foreign investment
(B) Internal Rate of Return Method - Finds the rate of discount making PV of foreign cash inflows equal to initial foreign investment
(C) NPV method - Converts cash inflows to home currency before discounting them
(D) Profitability Index Method - Divides PV of foreign cash inflows converted to home currency by initial investment converted to home currency

Oct/Nov 2019

71. Match the formula variables (List I) with their definitions (List II):
List I: (Formula Variables)
P. r_a
Q. r_p
R. S_0
S. r_h
List II: (Definitions)
1. Risk premium
2. Risk-adjusted discount rate
3. Notional risk-free interest rate in home country
4. Spot rate today
(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2013

72. Identify the correct pair matching the evaluation method with its core calculation objective under the Home Currency Approach.
(A) Pay-back period method - Finding the discount rate that makes PV equal to initial investment
(B) IRR Method - Finding the rate where the PV of inflows equals the initial investment
(C) Profitability Index Method - Subtracting initial investment from PV of cash inflows
(D) NPV method - Dividing PV by the initial investment

Oct/Nov 2020

73. In calculating the Profitability Index for Pinnacle Industries under the Foreign Currency Approach, what figures constitute the numerator and denominator?
(A) The undiscounted total of foreign cash inflows divided by US$ 120 lakh
(B) The PV of cash inflows in US$ divided by the estimated spot rate of year 4
(C) The total net profit in rupees divided by the domestic risk-adjusted discount rate
(D) PV of inflows in home currency divided by initial investment in home currency.

May/June 2007

74. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): In the Internal Rate of Return (IRR) method under the Foreign Currency Approach, if the calculated IRR is more than the risk-adjusted discount rate for the foreign currency, the proposal is acceptable.
Reason (R): The IRR method determines the exact spot rate at which foreign cash flows should be converted to match the initial investment.
Which of the following is correct?
(A) Both Assertion (A) and Reason (R) are true,

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and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2013

75. Match the following financial concepts (List I) with their fundamental descriptions (List II):
List I: (Financial Concepts)
P. Arbitrage Pricing Theory (APT)
Q. Capital Asset Pricing Model (CAPM)
R. Transfer Pricing Rules
S. International Portfolio Investment (IPI)
List II: (Fundamental Descriptions)
1. Uses a linear relationship between expected return and macroeconomic factors
2. Involves investment into foreign securities like treasury bills and listed equities
3. Relies on the systemic risk compared to the market as a whole using a generated beta
4. Aims to eliminate unfair trade practices in transactions between related parties
(A) P-1, Q-3, R-4, S-2
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2009

76. Consider the following steps used in evaluation methods utilizing the Home Currency Approach:
I. Estimate the spot rate for each year of the project's life.
II. Convert foreign currency cash inflows into home currency inflows using the estimated spot rates.
III. Convert initial investment in foreign currency into home currency using the actual present spot rate.
IV. Discount the cash inflows using the domestic risk-adjusted discount rate.
V. Calculate the Pay-back period without using discounted cash inflows.
Which of the above statement(s) is/are correct procedural steps?
(A) I, II, III, and IV only
(B) I, II, IV, and V only
(C) II, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2008

77. Identify the incorrect statement regarding Transfer Pricing and international investment.
(A) Wealthy multinational corporations use tax havens to park huge amounts of profits.
(B) Transfer Pricing rules apply to all international transactions between two related parties.
(C) Financial cost due to the breach of Transfer Pricing Rules can sometimes be prohibitive.
(D) OECD rules encourage the manipulation of internal rates to increase tax haven deposits.

May/June 2022

78. Match the following evaluation methods under the Home Currency Approach (List I) with their final operational step (List II):
List I: (Evaluation Methods)
P. Pay-back period method
Q. NPV method
R. Internal Rate of Return method
S. Profitability Index method
List II: (Final Operational Step)
1. Divide PV by the initial investment
2. By trial and error, find that discount rate which makes the PV of cash inflows equal to initial investment
3. Subtract initial investment from the PV
4. Find out the period during which cash inflows equal initial investment
(A) P-4, Q-3, R-2, S-1
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

Oct/Nov 2023

79. Consider the following statements regarding the impact of Transfer Pricing:
1. Multinational corporations have managed to earn huge amounts of profits and park them in tax havens.
2. The Organisation for Economic Cooperation and Deployment (OECD) recommends Transfer Pricing rules to eliminate unfair trade practices.
3. Transfer Pricing rules strictly apply only to domestic transactions between unrelated parties.
4. It is believed corporates manipulate rates or charges in internal transitions with related parties to amass profits in tax havens.
Which combination of statements is correct?

NODIA

17. (A) Direct Channel - Exchange-Traded Funds (ETFs) acting as an intermediary
Channels for international investment are classified as either direct or indirect. Foreign Direct Investment involves the direct acquisition of assets or control, which is a direct channel. In contrast, Exchange-Traded Funds and Mutual Funds act as intermediaries, making them indirect channels. Identifying ETFs as a direct channel is incorrect because they involve a third-party structure for managing the investment.

18. (C) Both I and II
When an entity plans to sell local currency to acquire foreign currency at a future date, the local currency value often experiences a discount. This adjustment occurs because a future premium must be paid to secure the exchange rate. Both the presence of a discount on the local currency and the requirement of a premium are standard features of forward pricing.

19. (D) Subtract land cost from sale value for gain, apply tax to gain, and deduct this from sale value.
To determine the net realization from the disposal of land at the end of a project, a specific sequence is followed. First, the initial cost is subtracted from the final sale value to identify the capital gain. Next, the appropriate tax rate is applied to this gain. Finally, the tax amount is deducted from the total sale value.

20. (A) I and II
Efficient foreign portfolio management depends on selecting an optimal mix of risk and return to meet specific targets. It is also essential to maintain sufficient liquidity to fulfill redemption requests while minimizing idle funds. However, securities with high market liquidity generally facilitate easier exits rather than creating problems, making the third statement regarding liquidity exit issues incorrect.

21. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
There is a general correlation between the liquidity of an investment and its expected return. Highly liquid assets typically offer lower returns because they involve less risk and provide easier access to cash. Since investors require higher compensation for taking on greater risks or lower liquidity, the safety and convenience of liquid assets result in a naturally lower yield.

22. (B) The historical domestic inflation average of the past decade
Calculating the forward rate for a currency contract requires several key inputs, including the current spot rate and the time remaining until expiration. Additionally, the ratio of interest rates between the two countries is essential for the adjustment. Historical domestic inflation averages over a decade are not a required component for the mathematical determination of the forward rate.

23. (C) USD 2,50,000 per FY
The Liberalised Remittance Scheme is a policy framework established by the Reserve Bank of India. Under this scheme, resident individuals are permitted to remit a maximum equivalent amount of USD 250,000 per financial year abroad for various permitted current or capital account transactions. This limit is set to facilitate international investment and personal expenditures within regulated boundaries.

24. (D) Direct Channel - American Depository Receipts (ADRs)
International Portfolio Investment involves acquiring foreign securities through various channels. American Depository Receipts are considered a direct channel because they allow investors to hold shares in a specific foreign company. Conversely, Global Mutual Funds and Global Depository Receipts are often categorized differently, with mutual funds serving as an indirect channel through an intermediary management structure for the portfolio.

25. (C) Assertion (A) is true, but Reason (R) is false.
A comprehensive separate hedge strategy involves combining the world market portfolio with risk-less bonds and currency-specific hedge portfolios. This approach addresses the multifaceted risks of international investing. However, the claim that exchange rate fluctuations occur solely due to stock performance is incorrect, as currency values are influenced by numerous macroeconomic factors beyond simple market index links.

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May/June 2019

86. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): When calculating NPV under the Home Currency Approach, the initial investment is subtracted from the present value of the discounted cash flows.
Reason (R): The cash inflows are discounted using the domestic risk-adjusted discount rate after being converted using estimated future spot rates.
Which of the following is correct?
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2007

87. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): The financial cost of breaching Transfer Pricing Rules can sometimes be prohibitive, making suitable study and analysis necessary.
Reason (R): Transfer Pricing Rules put all international transactions between related parties under strict scrutiny and impose a financial burden if breached.
Which of the following is correct?
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2010

88. Which is the most appropriate way to calculate the Profitability Index under the Foreign Currency Approach?
(A) Convert foreign cash flows to home currency using future estimated spot rates, discount them, and divide by the initial investment.
(B) Divide PV of foreign flows (converted at spot) by initial investment (converted at spot).
(C) Discount foreign cash flows using domestic risk-adjusted rate, convert to home currency, and subtract the initial investment.
(D) Divide the total undiscounted foreign cash flows by the initial foreign investment and multiply by the current spot rate.

Oct/Nov 2022

89. Consider the following statements about Transfer Pricing Rules:
I. They aim to eliminate unfair trade practices in international transactions.
II. They apply to international transactions taking place between two related parties.
III. Most countries have incorporated such rules in their tax laws.
IV. The rules put such transactions under strict scrutiny.
V. Breaching the rules imposes a financial burden that can sometimes be prohibitive.
Which of the above statement(s) is/are correct?

(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

May/June 2014

90. Consider the following steps related to the Profitability Index method under the Foreign Currency Approach:
I. Convert the present value of foreign cash inflows to home currency by multiplying it by the present spot rate.
II. Convert the initial investment to home currency by multiplying it by the present spot rate.
III. Divide the home currency PV of cash inflows by the home currency initial investment.
Which combination of steps is correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2015

91. Identify the incorrect statement regarding international capital budgeting and project decisions.
(A) Capital budgeting is used to determine if

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(A) 1, 2, and 3
(B) 1, 2, and 4
(C) 2, 3, and 4
(D) 1, 3, and 4

May/June 2018

80. Using the Pay-back period method under the Foreign Currency Approach for Pinnacle Industries, what is the calculated pay-back period?
(A) 2 years
(B) 2.5 years
(C) 3 years
(D) 3.5 years

Oct/Nov 2017

81. Match the evaluation approaches (List I) with their discounting methodologies (List II):
List I: (Evaluation Approaches)
P. Home Currency NPV Method
Q. Foreign Currency NPV Method
R. Home Currency Pay-back
S. Foreign Currency PI Method
List II: (Discounting Methodologies)
1. Divides PV of foreign cash inflows converted to home currency by initial investment converted to home currency
2. Discounts cash flows using the domestic risk-adjusted discount rate
3. Discounts cash inflows using the risk-adjusted discount rate for foreign currency
4. Finds the period where home currency inflows equal home currency initial investment
(A) P-2, Q-3, R-4, S-1
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2006

82. Arrange the following steps in the correct chronological order to calculate the Pay-back period under the Home Currency Approach:
I. Find out the period during which the cash inflows in home currency are equal to the initial investment in home currency.
II. Convert foreign currency cash inflows into home currency inflows, by using the arrived spot rates.
III. Estimate the spot rate for each year of the project's life by using the formula.
IV. Convert initial investment in foreign currency into home currency by using actual present spot rate.
Which of the following sequences is correct?
(A) I, III, II, IV
(B) III, II, IV, I
(C) IV, III, I, II
(D) II, IV, III, I

Oct/Nov 2014

83. Consider the following statements regarding the Pay-back period method under the Foreign Currency Approach:
I. It requires converting cash inflows to home currency using estimated future spot rates before finding the pay-back period.
II. It simply finds out the period during which the cash inflows in foreign currency are equal to the initial investment in foreign currency.
Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2016

84. What defines a "tax haven" in the context of multinational corporations and transfer pricing?
(A) A country that strictly regulates and penalizes high-profit margins
(B) A domain that imposes maximum possible taxes on all international transactions
(C) A country with minimal or no taxes used by corporations to park profits.
(D) A regulatory body established to audit international mutual funds

Oct/Nov 2016

85. If Pinnacle Industries were to switch to evaluating the project using the Home Currency Approach, what discount rate must be applied to the cash flows once they are converted to rupees?
(A) The risk-free interest rate of the foreign country
(B) The foreign risk-adjusted discount rate of 9%
(C) The domestic risk-adjusted discount rate
(D) The nominal interest rate of the foreign country

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May/June 2020

98. Identify the correct statement summarizing the actual risk-free rate used in the Capital Asset Pricing Model.

(A) It remains static over a ten-year period regardless of market yields.
(B) It shifts depending on the yields that are currently available for the selected security.
(C) It is exclusively derived from the domestic inflation rate.
(D) It is only applicable when evaluating zero-salvage value fixed assets.

Oct/Nov 2011

99. Consider the following factors related to international investment:

I. Remittance for international investment will always be in the local currency of the country where the investment takes place.
II. Foreign countries may impose price controls with a view to achieve fiscal and monetary policy objectives.
III. An investment in a country with a stable or strong foreign exchange rate performance will provide better returns.
IV. International investment generally offers better returns as the countries of investment are well or better managed economies.
V. Short-term investments carry absolutely zero risk regardless of political uncertainties.

Which of the statements are accurate?

(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

May/June 2005

100. Consider the following statements summarizing Transfer Pricing and related international dynamics:

I. The OECD has successfully been trying to eliminate unfair trade practices in international transactions.
II. Multinational corporations have managed to park huge amounts of profits in tax havens to avoid taxes.
III. Tax havens are characterized by having minimum or no taxes.
IV. OECD recommends Transfer Pricing rules that apply strictly to transactions between unrelated domestic parties.
V. It is believed corporates manipulate rates in internal transitions with related parties to amass profits in tax havens.

Which combination of statements accurately reflects the details of the topic?

(A) I, II, III, and V only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

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ANSWERS

1. (D) Multiplying the spot rate by the ratio of interest rates and adjusting for the time until expiration
The forward rate for future currency contracts is determined by applying the interest rate parity principle. This involves multiplying the current spot exchange rate by the ratio of the interest rates of the two respective countries. Adjustments must also be made for the specific time factor remaining until the contract's expiration to ensure accurate valuation of the instrument.

2. (C) $S_0 \times (1 + 0.10) / (1 + 0.06)$
To calculate the expected exchange rate for the first year using the interest rate parity condition, the current spot rate is adjusted by the relative interest rates. Specifically, the spot rate is multiplied by the ratio of one plus the home interest rate over one plus the foreign interest rate for the period to find the forward value.

3. (C) They require complex spreadsheets updated for various exchange rate fluctuation scenarios.
Projects established abroad require sophisticated financial modeling to account for currency volatility. Expected projections and cross-currency transactions are typically characterized by the use of complex spreadsheets. These tools are regularly updated to reflect various exchange rate fluctuation scenarios, ensuring that the integration of foreign and local cash flows remains accurate for the purpose of project evaluation.

4. (A) P-2, Q-1, R-3, S-4
International investment channels are categorized into direct and indirect methods. American Depository Receipts and Global Depository Receipts represent direct channels as they involve specific security ownership. Conversely, Global Mutual Funds and Exchange-Traded Funds are classified as indirect channels because they involve intermediaries managing the underlying assets for investors who are seeking diversified and professional international market exposure.

5. (B) It provides safe value and a lesser risk of exchange fluctuations or erosion of investment value.
Developed countries often offer higher exchange rate stability, which is a significant advantage for international investors. This stability provides a safe value for the investment and minimizes the risk of sudden exchange fluctuations. Consequently, the erosion of investment value due to currency volatility is greatly reduced, making these markets attractive for risk-averse portfolios seeking predictable international returns.

6. (A) I, II, and III
Currency valuations and country risk are influenced by several critical factors. Economic impacts like pandemics and fiscal policies play a major role, alongside geopolitical events such as embargoes and sanctions. Furthermore, internal revolts and political turbulence significantly affect stability. Choosing specific investment instruments like ADRs or mutual funds does not inherently alter these fundamental country risks or currency valuations.

7. (B) To make long-term decisions regarding sustainable project growth and expected returns
The primary objective of capital budgeting in the context of fixed asset planning is to facilitate informed long-term decision-making. It focuses on identifying projects that offer sustainable growth and acceptable expected returns over several years. This strategic process goes beyond short-term accounting profits, ensuring that the firm allocates its resources efficiently to maximize overall corporate value and growth.

(A) P-3, Q-1, R-4, S-2
Investment stocks are classified into distinct categories based on financial metrics. Value stocks typically exhibit a high book-to-market price ratio, while growth stocks are characterized by low book-to-market ratios. Small-cap stocks are defined by their lower total market capitalization. Additionally, stocks can be classified by their price-to-earnings ratios, which

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reflect market expectations regarding future growth and profitability.

9. (B) The home currency has significantly weakened in comparison to the foreign currency over the project's lifespan.
A project with a negative net present value in foreign currency can still be acceptable if the home currency has significantly weakened against that foreign currency. When the foreign cash flows are converted back at the new exchange rates, their value in the home currency increases. This conversion can result in a highly positive domestic net present value for the company.

10. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Forward contract rates require adjustment based on interest rate differentials and the remaining time until expiration. Separately, spot rates are not uniform across all transaction types and vary depending on the specific mode of currency used, such as telegraphic transfers or travellers' cheques. While both statements are factually correct, the variation in spot rates does not explain forward rate adjustments.

11. (D) Secured assets compared to unsecured assets
Foreign investments generally yield better returns when placed in countries with stable exchange rate performance or well-managed economies. Additionally, dividend accumulation plans often outperform distribution plans over time due to compounding. However, the distinction between secured and unsecured assets is a matter of credit risk and collateral, rather than a characteristic that inherently yields higher returns in foreign investments.

12. (C) The spot rate remains uniform and constant across all forms or modes of currency such as currency notes, travellers' cheques, and telegraphic transfers.
The prevailing rate for immediate currency conversion is known as the spot rate, whereas future transactions utilize forward contract rates. It is incorrect to assume that the spot rate remains uniform across all forms of currency. In practice, rates vary significantly between different modes of exchange, including physical currency notes, travellers' cheques, and electronic instruments such as telegraphic transfers.

13. (A) Subtracting the issue cost percentage from the trading price
In the calculation of the cost of capital, determining the net proceeds per share is a fundamental step. This is achieved by taking the current trading price of the security and subtracting the flotation or issue costs. These costs are often expressed as a percentage of the price, reflecting the actual capital received by the firm from issuing the shares.

14. (C) Building a multi-market portfolio of securities to achieve better risk-return trade-offs.
The principle of international diversification involves constructing a multi-market portfolio of securities across different countries. This strategy aims to achieve a superior risk-return trade-off by reducing exposure to any single domestic market's volatility. By spreading investments globally, investors can mitigate systemic risks specific to one nation while capturing growth opportunities in various economic regions around the world.

15. (D) Political developments, trade restrictions, and governmental changes
Country risk encompasses a broad range of factors that can impact the value of an investment within a specific nation. This includes political developments, changes in government, and the imposition of trade restrictions or sanctions. Unlike market-specific risks like P/E ratios or accounting methods, country risk focuses on the macro-environment that affects all economic activities within that territory.

16. (A) Differences in legal systems, currency systems, and trade barriers
International business entities face unique challenges that do not typically affect domestic operations. These include navigating different legal systems, managing multiple currency systems, and overcoming various trade barriers. Such complexities require specialized knowledge and strategic planning to address the lack of uniformity in global markets and the inherent unpredictability of foreign political and economic environments during the evaluation.

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long-term expenditure decisions will result in sustainable growth.
(B) Issues faced by an international entity are identical to those faced by a domestic entity.
(C) Making investments abroad requires deep analysis because foreign environments, laws, and culture are unknown and unpredictable.
(D) Project evaluation involves gathering relevant information that may lead to changes in internal workflows.

May/June 2023

92. Consider the following summary statements:
1. A beta is generated which is a measure of volatility or the systemic risk compared to the market as a whole.
2. The actual risk-free rate used in CAPM is permanently fixed and never shifts based on current yields.
3. Arbitrageurs using APT can take advantage of any deviations from fair market value.
4. Project evaluation is a strategy used to determine whether a project or programme is going to be successful.

Which combination of statements is correct?
(A) 1, 2, and 3
(B) 1, 3, and 4
(C) 2, 3, and 4
(D) 1, 2, 3, and 4

Oct/Nov 2005

93. Consider the following statements regarding NPV rules in project evaluation:
I. If the NPV is equal to 0, the project will neither add value nor are you likely to lose.
II. A positive NPV means the project can be given a go ahead and a negative NPV is a red signal.

Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2012

94. Which evaluation metric is considered the logical next step forward after calculating the Net Present Value (NPV)?
(A) Internal Rate of Return (IRR)
(B) Pay-back period
(C) Profitability Index
(D) Average Accounting Return

Oct/Nov 2024

95. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): Dividend accumulations or reinvestment plans provide higher returns than from those where dividends are distributed.
Reason (R): International investment can generally offer better returns because the countries of investment are typically well or better managed economies.
Which of the following is correct?
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2017

96. Consider the following rules concerning the Internal Rate of Return (IRR):
I. If the IRR is lower than the cost of capital, the project should be abandoned.
II. If the internal rate of return on a project is greater than the minimum required rates of return, the project or investment should proceed.
III. The IRR method bypasses the need to identify the minimum required rates of return altogether.

Which combination of statements is correct?
(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

Oct/Nov 2009

97. Which of the following is NOT a macroeconomic factor used as a variable in the Arbitrage Pricing Theory (APT)?
(A) Language barriers in obtaining quick information
(B) Gross domestic product (GDP) growth
(C) Domestic Inflation Rate
(D) Gold Prices

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26. (D) One has to make a choice about the currency, on the basis of which one is dominant from the project point of view.
When establishing an international project, a critical decision must be made regarding the currency used for financial evaluation. This choice is typically based on which currency is most dominant from the project's perspective. Selecting the appropriate currency ensures that the projections accurately reflect the economic realities of the cross-border operations and the primary sources of project cash flows.

27. (A) Investment value loss in local currency due to home currency depreciation or foreign appreciation
Exchange risk refers to the potential loss in the value of an investment when measured in the investor's local currency. This occurs due to fluctuations in exchange rates, such as the depreciation of the home currency or the appreciation of the foreign currency. Such movements can erode the actual returns received when foreign earnings are converted back home.

28. (A) Investment into foreign securities like Treasury bills, mutual funds, and equities
International Portfolio Investment is defined as the acquisition of foreign financial assets by investors. These assets include securities such as Treasury bills, mutual funds, and equities. Unlike Foreign Direct Investment, which involves direct managerial control or physical infrastructure, IPI focuses on passive investment in paper assets to achieve diversification and capture returns from international capital markets.

29. (C) It is deducted for tax purposes, then added back to profit after tax to find net cash flow.
In capital budgeting for projects like the Zenith office complex, depreciation is handled as a non-cash expense. It is first deducted from the operating profit to calculate the taxable income and the resulting tax liability. After the tax is subtracted, the depreciation amount is added back to the profit after tax to determine the net annual cash flow.

30. (D) The availability of internationally listed stocks completely removes all capital flow impediments.
International portfolio investment faces several barriers, including price controls, language obstacles that hinder information access, and political or economic uncertainties. While the availability of internationally listed stocks facilitates global trading, it does not completely remove all capital flow impediments. Structural, legal, and economic barriers often persist despite the listing of securities on various foreign exchanges.

31. (C) APT uses a linear relationship between return and multiple macroeconomic factors.
The Arbitrage Pricing Theory differs from the Capital Asset Pricing Model by utilizing multiple macroeconomic factors to explain asset returns. While CAPM relies on a single market index and a beta value for systemic risk, APT assumes a linear relationship between expected returns and various factors like GDP growth, inflation, and interest rates, providing a more complex evaluation framework.

32. (B) Applying standard domestic depreciation to eliminate all foreign tax burdens.
Evaluating overseas projects involves unique challenges such as estimating future exchange rates and calculating risk-adjusted discount rates specific to the foreign country. It also requires converting foreign cash flows into the home currency. However, simply applying standard domestic depreciation rules cannot eliminate foreign tax burdens, as projects must comply with the tax laws of the host nation.

33. (B) S&P 500 index
In the practical application of the Capital Asset Pricing Model, calculating a security's beta requires a representative market index. The S&P 500 index has traditionally been used as the standard proxy for the overall market return. It provides a broad benchmark that reflects the performance of large-cap stocks, facilitating the measurement of a company's systemic risk.

34. (C) Rs. 95.32
To estimate the spot rate at the end of the second year for Nova Corp, the current spot rate of Rs. 90 is adjusted for the inflation differentials over

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88. (B) Divide PV of foreign flows (converted at spot) by initial investment (converted at spot).
The Profitability Index under the Foreign Currency Approach is calculated by first discounting the foreign cash flows using the foreign risk-adjusted rate. This present value is then converted to the home currency using the present spot rate. Finally, this figure is divided by the initial investment, also converted at the present spot rate, to provide a ratio of value created.

89. (D) I, II, III, IV, and V
Transfer Pricing rules are a critical component of international tax law. They are designed to eliminate unfair trade practices and apply specifically to transactions between related parties. Most countries have integrated these rules into their legislation, subjecting internal corporate transactions to strict scrutiny. This ensures that multinational entities do not unfairly manipulate prices, as the financial cost of breaching these rules is prohibitive.

90. (D) I, II, and III
To determine the Profitability Index under the Foreign Currency Approach, three specific steps are integrated. First, the present value of the foreign cash inflows is converted to the home currency using the present spot rate. Second, the initial investment is similarly converted at the same rate. Finally, the converted present value is divided by the converted initial investment to arrive at the index.

91. (B) Issues faced by an international entity are identical to those faced by a domestic entity.
International capital budgeting requires a deep analysis of foreign environments, laws, and cultures, which are often unpredictable. While the framework of project evaluation helps determine the sustainability of long-term expenditures, the issues faced by international entities are distinctly different from those of domestic firms. These include managing exchange rate risks and navigating unique regulatory barriers that do not exist domestically.

92. (B) 1, 3, and 4
Portfolio and project management rely on several key principles. In the Capital Asset Pricing Model, beta is used to measure systemic risk and market volatility. Similarly, Arbitrage Pricing Theory allows arbitrageurs to exploit price deviations from fair market value. Project evaluation serves as a strategic tool to assess a program's potential success. However, the risk-free rate is not permanently fixed and shifts with market yields.

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93. (C) Both I and II
Net Present Value rules provide a clear framework for investment decisions. A positive NPV indicates that the project will add value and should proceed, while a negative NPV serves as a signal to reject the proposal. If the NPV equals zero, the project is expected to break even, neither adding value nor resulting in a loss for the firm during its operations.

94. (C) Profitability Index
After calculating the Net Present Value to determine the absolute value added by a project, the Profitability Index is considered the logical next step. This metric expresses the relationship between the present value of future cash inflows and the initial investment as a ratio. It helps investors assess the relative efficiency of capital usage, especially when comparing multiple projects with different scales.

95. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Reinvestment or dividend accumulation plans generally provide higher returns due to the power of compounding over time. Separately, international investments often offer better returns because they are frequently placed in well-managed economies with strong growth potential. While both statements are accurate observations of international investment dynamics, the management of the economy does not directly explain why reinvestment plans outperform distribution plans.

96. (A) I and II
The Internal Rate of Return method provides specific rules for project acceptance. If the IRR exceeds the minimum required rate of return, the investment should proceed, but if it falls below the cost of capital, the project should be abandoned. Contrary to some misconceptions, the IRR method does not bypass the need to

43. (C) Assertion (A) is true, but Reason (R) is false.
Evaluating an overseas project involves specific issues such as currency fluctuations and differing legal environments that distinguish it from domestic projects. While the evaluator must analyze workflows and gather relevant information, the claim that foreign projects do not require a capital budgeting framework is incorrect. Capital budgeting remains essential for making long-term expenditure decisions and ensuring sustainable project returns.

44. (D) Decreases the expected return by 2.4%.
In the Omega Investments scenario, the sensitivity to silver prices is represented by a beta of -1.6. When evaluating the impact of a 1.5% change in silver prices on the expected return, this factor contributes a specific adjustment. According to the calculated results for this model, the sensitivity to silver prices leads to a 2.4% decrease in the return.

45. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Under the Home Currency Approach, foreign cash flows are converted into the home currency using estimated future exchange rates before discounting. This procedure is necessary because the initial project investment is valued at the present spot rate. Converting future flows ensures that all values are on the same currency basis, allowing for an accurate net present value calculation.

46. (D) I, II, III, IV, and V
The standard formula for calculating the Cost of Equity under the Capital Asset Pricing Model actively utilizes several integrated components. These include the risk-free rate, the levered beta of the company, and the expected return on the market. From these, the market risk premium is derived, which, when combined with the other variables, determines the total required return for investors.

47. (B) Rs. 92.62
To estimate the spot rate at the end of the first year for Nova Corp, the current spot rate is adjusted by the ratio of the domestic and foreign inflation rates. By multiplying the initial rate of Rs. 90 per Euro by the inflation factor of 1.06 divided by 1.03, the projected exchange rate is determined to be Rs. 92.62.

48. (B) An alternative to CAPM utilizing multiple macroeconomic variables affecting systemic risk.
Arbitrage Pricing Theory is fundamentally defined as a sophisticated pricing model that serves as an alternative to the Capital Asset Pricing Model. Unlike CAPM, which uses a single market factor, APT utilizes multiple macroeconomic variables that influence systemic risk. It assumes a linear relationship between an asset's expected return and factors such as inflation, GDP growth, and interest rates.

49. (B) II, III, and IV only
Calculating the risk-adjusted discount rate for a foreign currency requires several specific variables. These include the risk-free discount rates of both the foreign country and the home country. Additionally, the risk premium acceptable to the company for the project must be determined. These components are used to adjust the domestic rate to reflect the economic conditions of the foreign project.

50. (C) They will exploit deviations if the actual market return differs from this value.
Once the fair expected return of a security is calculated using Arbitrage Pricing Theory, arbitrageurs monitor the market for discrepancies. If the actual market return differs from the calculated 16.4%, these participants will exploit the deviations through buying or selling. This activity continues until the market price aligns with the fair value derived from the macroeconomic factors in the model.

51. (D) I, II, and III
The Home Currency Approach involves a sequence of logical steps to evaluate an international project's feasibility. First, all projected cash flows are converted into the home currency using estimated future spot rates. Next, these converted flows are discounted using the domestic risk-adjusted discount rate. Finally, the initial investment is subtracted from the total present value to find the net present value.

52. (A) Only I
Arbitrage Pricing Theory is based on the perspective that the market occasionally

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converted present values. However, it is incorrect to state that the NPV method converts cash inflows into home currency before discounting them; that specific procedural step is characteristic of the Home Currency Approach.

71. (A) P-2, Q-1, R-4, S-3
Financial formulas for project evaluation utilize several specific variables to account for risk and currency. The risk-adjusted discount rate is represented by ra, while rp denotes the risk premium. S0 signifies the current spot exchange rate. Additionally, rh is used to represent the notional risk-free interest rate in the home country, facilitating calculations across different economic environments for projects.

72. (B) IRR Method - Finding the rate where the PV of inflows equals the initial investment
Under the Home Currency Approach, each evaluation method has a distinct calculation objective. The Internal Rate of Return method aims to find the specific discount rate at which the present value of cash inflows exactly equals the initial investment. This differs from the NPV method, which calculates the absolute difference between these values, and the Profitability Index, which divides them.

73. (D) PV of inflows in home currency divided by initial investment in home currency.
The Profitability Index for Pinnacle Industries under the Foreign Currency Approach is calculated using a specific ratio. The numerator consists of the present value of the foreign cash inflows, which has been converted into the home currency using the present spot rate. This total is then divided by the initial investment, also expressed in the home currency, to determine the index.

74. (C) Assertion (A) is true, but Reason (R) is false.
In the Internal Rate of Return method, a project is considered acceptable if the calculated IRR exceeds the required risk-adjusted discount rate for the foreign currency. This rule helps determine if the project's returns justify the risk. However, the reason provided is incorrect because the IRR method finds the discount rate, not the spot rate, for making present value equal to investment.

75. (A) P-1, Q-3, R-4, S-2
Financial management involves diverse concepts with specific definitions. Arbitrage Pricing Theory utilizes linear relationships with macroeconomic factors, while the Capital Asset Pricing Model relies on beta to measure systemic risk. Transfer Pricing rules aim to prevent unfair trade practices between related parties. Finally, International Portfolio Investment describes the process of investing in foreign securities like equities and treasury bills for diversification.

76. (D) I, II, III, IV, and V
Evaluating a project using the Home Currency Approach involves multiple steps. These include estimating future spot rates, converting cash inflows and the initial investment into the home currency, and discounting inflows using the domestic risk-adjusted rate. Additionally, calculating the pay-back period without discounting remains a valid procedural step for determining the time required to recover the initial capital outlay.

77. (D) OECD rules encourage the manipulation of internal rates to increase tax haven deposits.
Transfer pricing involves the internal rates set by multinational corporations for transactions between related parties. While some corporations use tax havens to park profits, Transfer Pricing rules are designed to bring such transactions under strict scrutiny. Contrary to the incorrect statement, the OECD rules are intended to eliminate unfair trade practices and do not encourage the manipulation of rates for tax avoidance.

78. (A) P-4, Q-3, R-2, S-1
Each project evaluation method under the Home Currency Approach concludes with a specific operational step. The pay-back period method finds the time needed to recover the investment. The NPV method involves subtracting the initial investment from the present value. The IRR method uses trial and error to find the discount rate, while the Profitability Index divides the PV by the investment.

79. (B) 1, 2, and 4
Transfer pricing dynamics significantly impact international business and tax revenues. Multinational corporations have been known to

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rate. The resulting present value and the initial investment are then converted to the home currency using the present spot rate before subtraction.

62. (A) The proposal is acceptable as the IRR exceeds the risk-adjusted discount rate.
Under the Foreign Currency Approach, the acceptability of a project is determined by comparing the Internal Rate of Return to the required risk-adjusted discount rate. For Pinnacle Industries, the calculated IRR of 24% for the US$ cash flows exceeds the 9% risk-adjusted discount rate. Therefore, the proposal is financially viable and should be accepted based on standard IRR decision rules.

63. (A) It requires discounting the cash inflows using the domestic risk-adjusted discount rate before finding the period.
The Pay-back period method under the Home Currency Approach focuses on the time required to recover the initial investment. This involves estimating future spot rates and converting foreign cash inflows into the home currency. However, the standard pay-back method does not require discounting these cash inflows; it simply finds the point where the nominal converted inflows equal the initial investment.

64. (C) Uniform global weather patterns
Exchange rates fluctuate due to a variety of economic and geopolitical factors. These include the performance of stock markets, overall economic growth rates, and levels of political stability or turbulence. However, uniform global weather patterns are not a factor that causes shifts in currency valuations, as they do not directly influence the fiscal or monetary dynamics of international trade.

65. (D) 1, 2, 3, and 4
The procedure for calculating NPV using the Foreign Currency Approach consists of four essential steps. These include determining the foreign risk-adjusted discount rate and discounting the foreign cash inflows. Subsequently, the discounted value is converted to the home currency using the present spot rate, after which the initial home currency investment is subtracted to find the final NPV.

66. (A) P-2, Q-1, R-4, S-3
Various risks and factors define international investment outcomes. Country risk involves political developments and government changes, while exchange risk pertains to investment value loss due to currency depreciation. Maintaining liquidity ensures less risk in a portfolio. Furthermore, dividend accumulations are preferred by many investors as they typically provide higher returns compared to regular distributions over the investment tenure.

67. (A) P-2, Q-4, R-1, S-3
Evaluation approaches for international projects differ in their discounting and conversion methods. The Home Currency Approach converts cash flows at the estimated spot rate for each period and uses a domestic risk-adjusted discount rate. In contrast, the Foreign Currency Approach uses a foreign risk-adjusted rate and applies the present spot rate to the final discounted total for home currency conversion.

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68. (B) The present spot rate of Rs. 85 per US$
When calculating the Net Present Value using the Foreign Currency Approach, the final step involves converting the present value of the foreign cash inflows into the home currency. For Pinnacle Industries, the present spot rate of Rs. 85 per US$ is strictly applied to this conversion. This ensures that the discounted future value is compared accurately against the initial investment.

69. (A) Organisation for Economic Cooperation and Development
The acronym OECD stands for the Organisation for Economic Cooperation and Development. This international body plays a crucial role in global trade practices and economic policy. It provides a forum for governments to work together to promote prosperity and sustainability, including the recommendation of rules for Transfer Pricing to eliminate unfair trade practices in international transactions.

70. (C) NPV method - Converts cash inflows to home currency before discounting them
Methods under the Foreign Currency Approach include the Pay-back period and Internal Rate of Return, which operate directly on foreign currency values. The Profitability Index also uses

misprices securities, allowing for arbitrage opportunities. This model assumes a linear relationship between an asset's expected return and various macroeconomic factors. Because the theory relies on this linear framework to measure systemic risk, the statement claiming it utilizes a non-linear relationship is considered incorrect in financial theory.

53. (B) 2.5%
In the Omega Investments calculation, the contribution of the GDP growth factor to the overall expected return is determined by multiplying the factor sensitivity by the expected change in GDP. Based on the specific parameters of the arbitrage pricing model used for this stock, the calculated premium contribution for this macroeconomic variable is identified as 2.5% in the final return.

54. (B) 8.15%
To find the applicable risk-adjusted discount rate for Euro cash flows at Nova Corp, the company applies its 5% risk premium to the foreign risk-free rate. By multiplying one plus the 3% risk-free rate in Europe by one plus the 5% risk premium, the resulting rate is 8.15%. This rate is then used to discount the project's inflows.

55. (D) I, II, and III
Project evaluation is a comprehensive strategy used to assess whether a program or policy will be successful and what impacts it will have. This process often leads to significant changes in internal workflows and helps identify patterns among the target audience. Additionally, successful evaluation results in the formulation of future project plans and the reporting of value to stakeholders.

56. (A) The expected return on a security considered to have no inherent risk
The risk-free rate in the Capital Asset Pricing Model represents the expected rate of return on an investment that is considered to have no inherent risk. This rate serves as the baseline for calculating the required return on riskier assets. It typically shifts based on current market yields for government-backed securities, providing a foundation for determining the market risk premium.

57. (A) To convert foreign flows into rupees for consistency with the initial investment.
Estimating future exchange rates is essential for evaluating overseas projects when using the Home Currency Approach. This allows the firm to convert all projected foreign cash flows into rupees, ensuring consistency with the initial investment value. Since the capital outlay is measured in the domestic currency, future returns must be translated into the same unit to calculate the NPV.

58. (C) Assertion (A) is true, but Reason (R) is false.
Arbitrage Pricing Theory is based on the premise that market prices can deviate from their fair value based on macroeconomic factors. Arbitrageurs take advantage of these discrepancies to earn profits, which eventually brings prices back to equilibrium. The claim that the market perfectly prices securities at all times is incorrect, as APT specifically accounts for systemic mispricing and deviations.

59. (A) Only I
The formula used to extract the risk premium is based on the relationship between the risk-adjusted rate and the risk-free rate. Specifically, it is expressed as one plus the risk-adjusted rate equaling the product of one plus the risk-free rate and one plus the risk premium. In this equation, ra represents the risk-adjusted discount rate, while rf represents the risk-free rate.

60. (B) It is the baseline percentage to which factor risk premiums are added.
In the calculation of expected return using the Arbitrage Pricing Theory for Omega Investments, the 4% risk-free rate serves as the baseline percentage. The various factor risk premiums, derived from GDP growth, inflation, and other macroeconomic variables, are added to this baseline. This total sum represents the comprehensive expected return for the stock under the multi-factor model valuation.

61. (A) II, I, V, IV, III
To calculate the Net Present Value under the Foreign Currency Approach, a specific sequence must be followed. First, the risk-adjusted discount rate for the foreign currency is determined. Next, foreign cash inflows are discounted using this

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park profits in tax havens with minimal taxes by manipulating internal transaction rates. To combat this, the OECD recommends Transfer Pricing rules aimed at eliminating unfair trade practices. These rules specifically apply to international transactions between related parties rather than unrelated domestic entities.

80. (B) 2.5 years
To calculate the pay-back period for Pinnacle Industries under the Foreign Currency Approach, the foreign cash inflows are accumulated until they equal the initial investment of US$ 120 lakh. The project recovers US$ 40 lakh in each of the first two years, leaving US$ 40 lakh. With a third-year inflow of US$ 80 lakh, the recovery takes another half-year, totaling 2.5 years.

81. (A) P-2, Q-3, R-4, S-1
Different evaluation methodologies apply specific discounting and calculation rules. The Home Currency NPV method uses the domestic risk-adjusted discount rate, while the Foreign Currency NPV method utilizes the rate for the foreign currency. The Home Currency Pay-back method finds the recovery period in the domestic currency. Finally, the Foreign Currency Profitability Index divides converted present values by the converted initial investment.

82. (B) III, II, IV, I
Calculating the Pay-back period under the Home Currency Approach requires a chronological sequence of steps. First, future spot rates must be estimated for each year of the project. Next, foreign cash inflows are converted using these rates. Then, the initial investment is converted using the present spot rate. Finally, the period required to match the converted inflows to the investment is identified.

83. (B) Only II
The Pay-back period method under the Foreign Currency Approach is a straightforward calculation. It identifies the amount of time needed for the accumulated cash inflows in the foreign currency to equal the initial project investment in that same currency. Unlike the Home Currency Approach, it does not require converting the inflows into the home currency or estimating future exchange rates annually.

84. (C) A country with minimal or no taxes used by corporations to park profits.
A tax haven is defined as a specific geographic domain or country that imposes minimal or no taxes on financial income. These locations are frequently utilized by multinational corporations to park large amounts of profit generated through international transactions. By using tax havens and manipulating internal transfer prices, corporations aim to minimize their overall tax burden on a global scale.

85. (C) The domestic risk-adjusted discount rate
If Pinnacle Industries decides to use the Home Currency Approach for project evaluation, a change in the discounting procedure is required. Once the projected foreign cash flows are converted into rupees using estimated future spot rates, they must be discounted using the domestic risk-adjusted discount rate. This ensures that the analysis reflects the company's required return within its home economy.

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86. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
When calculating the Net Present Value under the Home Currency Approach, the final step is to subtract the initial investment from the total present value. This value is derived by discounting cash inflows using the domestic risk-adjusted discount rate after they have been converted from the foreign currency. While both statements describe the process accurately, the discounting method itself does not explain the subtraction rule.

87. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Breaching Transfer Pricing rules can lead to significant financial penalties that are often prohibitive for a corporation. This is because tax authorities place international transactions between related parties under intense scrutiny to prevent tax avoidance. Consequently, conducting a thorough study and analysis of these transactions is necessary to avoid the severe financial burden associated with non-compliance with these strict regulations.

two years. Applying the ratio of home inflation to foreign inflation annually results in a calculated rate of approximately Rs. 95.32 per Euro, reflecting the expected currency depreciation over the period.

35. (C) 16.4%
The expected return for Omega Investments is calculated using the Arbitrage Pricing Theory formula by summing the risk-free rate and the premiums for each factor. By multiplying the sensitivities by their respective factor changes, including the positive contribution from a negative silver beta and falling silver prices, the total expected return is determined to be 16.4% for the stock.

36. (A) All flows are converted into home currency using estimated spot rates at the flow time.
The Home Currency Approach for evaluating overseas projects involves a specific two-step process. First, all projected foreign cash flows are converted into the domestic currency using estimated future spot rates for each period. Second, these converted cash flows are discounted back to the present value using the domestic risk-adjusted discount rate to determine the project's total feasibility.

37. (A) Dividend accumulations or reinvestment plans
International investment plans that focus on dividend accumulation or reinvestment typically provide higher overall returns compared to regular distribution plans. By reinvesting dividends back into the portfolio, investors benefit from compounding growth over the investment tenure. This strategy is especially effective in well-managed economies where the underlying assets have strong potential for long-term capital appreciation and growth.

38. (D) Tapping foreign markets for consumption, raw materials, or international capturing.
Establishing a project abroad is a strategic decision often driven by the need to access new consumer markets or secure essential raw materials. International capital budgeting facilitates this expansion by evaluating the long-term benefits of capturing international market share. Such initiatives allow corporations to diversify their operations and leverage global opportunities that are not available within their domestic borders.

39. (A) 5.00%
The risk premium required by a company is derived from the relationship between the risk-adjusted discount rate and the risk-free rate. For Nova Corp in India, the risk-adjusted rate is 13.4% and the risk-free rate is 8.0%. By dividing one plus the risk-adjusted rate by one plus the risk-free rate, the calculated risk premium is determined to be 5.00%.

40. (D) APT utilizes factors like GDP, inflation, stock indices, gold prices, and interest rates.
Arbitrage Pricing Theory is based on the premise that several macroeconomic variables influence the expected return of an asset. These factors typically include gross domestic product growth, inflation rates, performance of various stock indices, gold prices, and interest rates. Unlike CAPM, which uses only market risk, APT integrates these diverse economic indicators to measure systemic risk more comprehensively during valuation.

41. (B) Flows remain in foreign currency, are discounted at the foreign rate, then converted at the spot rate.
In the Foreign Currency Approach, the evaluation of an overseas project begins by keeping the projected cash flows in the foreign currency. These flows are then discounted using a risk-adjusted discount rate specific to that foreign country. Finally, the resulting present value is converted into the home currency using the current spot exchange rate to determine the project's value.

42. (A) P-2, Q-1, R-4, S-3
The Capital Asset Pricing Model consists of several key components used to determine the cost of equity. Beta measures the co-variance between a stock's return and the market. The market risk premium represents the difference between market returns and the risk-free rate. The expected market return is the general return for the whole market, while the risk-free rate is for zero-risk securities.

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identify the minimum required rates for proper comparison.

97. (A) Language barriers in obtaining quick information
Arbitrage Pricing Theory uses macroeconomic factors as variables to determine asset returns. These include the domestic inflation rate, gross domestic product growth, and gold prices. While language barriers can be a practical obstacle in international investing by hindering information access, they are not a quantified macroeconomic variable used within the mathematical framework of the APT model to measure systemic risk.

98. (B) It shifts depending on the yields that are currently available for the selected security.
In the Capital Asset Pricing Model, the risk-free rate is not a static figure. It shifts over time based on the yields currently available for the selected low-risk security, such as government bonds. This dynamic nature ensures that the model reflects the prevailing economic environment, which is necessary for accurately calculating the market risk premium and the required return.

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99. (A) I, II, III, and IV only
International investment involves several key factors, including the fact that remittances occur in the local currency of the host country. Foreign governments may also use price controls to achieve fiscal goals. Furthermore, investments in stable economies with strong exchange rates typically provide better returns. However, the claim that short-term investments carry zero risk despite political uncertainties is incorrect, as all investments face risk.

100. (A) I, II, III, and V only
Transfer pricing is a complex area of international finance where multinational corporations may manipulate internal rates to park profits in tax havens with minimal taxation. The OECD works to eliminate these unfair practices by recommending rules that bring transactions between related parties under strict scrutiny. This helps prevent tax avoidance and ensures fair trade, as non-compliance can lead to prohibitive financial burdens.

CHAPTER 11

Adjustment of Risk and Uncertainty in Capital Budgeting Decision

Oct/Nov 2019

1. The primary aim of sensitivity analysis is to:
(A) Find the correlation between multiple distinct projects.
(B) Ensure that all variables move in the same direction simultaneously.
(C) Determine the standard deviation of cash inflows across the project life.
(D) Measure how changes in individual variables affect project projections.

May/June 2007

2. Which academic conceptualised the model that analyses risk based on the standard deviation of cash inflows?
(A) Prof. Eugene Fama of Chicago University
(B) Prof. Harry Markowitz of Yale University
(C) Prof. Fredrick S. Hillier of Stanford University
(D) Prof. William Sharpe of Stanford University

Oct/Nov 2022

3. Which of the following accurately differentiates contextual risks from other forms of risk in capital budgeting?
(A) They are strictly limited to the use of hazardous chemicals and polluting equipment.
(B) They eliminate the necessity for strict scrutiny before operations commence.
(C) They arise from the specific mode or form of conducting business operations.
(D) They are independent of market behaviour and competition dynamics.

May/June 2015

4. What is the correct chronological sequence of the initial steps involved in Simulation Analysis?
I. Calculate NPV (or IRR).
II. Prepare model project report on expected lines.
III. Find out how the NPV is influenced by parameters and exogenous variables.
(A) I, II, III
(B) II, I, III
(C) III, I, II
(D) II, III, I

Oct/Nov 2011

5. A project features an initial cost of Rs. 1,20,000, annual cash inflow of Rs. 45,000, and a 10% cost of capital over 4 years. A 10% adverse variance in initial project cost changes NPV by 53.08%, while a 10% adverse variance in annual cash inflow changes NPV by 63.08%, and cost of capital adverse variance changes NPV by 13.14%. Which factor is the project most sensitive to?
(A) Initial Project Cost
(B) Annual Cash Inflow
(C) Cost of Capital
(D) Project Life

May/June 2021

6. Identify the correct statement using the Assertion (A) and Reason (R) provided below.
Assertion (A): Most simulations are conducted using computers rather than manual calculations.
Reason (R): Simulation involves computational tedium, multiplicity, and complex interrelationships among parameters and exogenous variables.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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Oct/Nov 2008

7. Capital budgeting means estimating cost and revenue to be incurred and earned in the future period. The elements of cost include:
(A) Tangible assets including only land, plant, and labour costs
(B) Land, plant, labour, materials, and working capital
(C) Intangible factors like foreign sourcing and high technology
(D) Plant, materials, and various inherent corporate risks

May/June 2024

8. Match the scenario types in List I with their corresponding variable assumptions in List II.
List I: Scenario Types
P. Expected Scenario
Q. Optimistic Scenario
R. Pessimistic Scenario
S. Scenario Analysis
List II: Variable Assumptions
1. All variables show normal values
2. Worst values are placed for the variables
3. Best values are taken for the variables
4. An extension of sensitivity analysis
(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-3, R-2, S-4
(C) P-4, Q-2, R-3, S-1
(D) P-3, Q-4, R-1, S-2

Oct/Nov 2016

9. Identify the correct statement using the Assertion (A) and Reason (R) provided below.
Assertion (A): In the Hillier Model, perfectly correlated cash flows and uncorrelated cash flows utilise the exact same mathematical formula for calculating the standard deviation of NPV.
Reason (R): Perfect correlation means the behaviour of cash flows in all years is alike, whereas no correlation implies independence between years.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

NODIA

May/June 2010

10. Which of the following is an incorrect statement regarding the limitations of sensitivity analysis?
(A) It only shows the NPV.
(B) It changes only one variable at a time.
(C) It evaluates multiple variables changing simultaneously in the same direction.
(D) It is subjective because it depends on the perception of the decision maker or the analyst.

Oct/Nov 2005

11. In Decision Tree Analysis, a "branch" represents:
(A) The reward at the end of the decision.
(B) The combined risk profile of the firm.
(C) The standard deviation of expected cash inflows.
(D) A decision which is an alternative course of action.

May/June 2017

12. A copper manufacturing plant faces an imminent threat of closure due to intermittent scrutiny regarding its pollution control equipment. Which underlying risk perspective best characterises the required budgeting adjustment for this situation?
(A) Exogenous variable risk factors
(B) Foreign sourcing risk profiles
(C) Project specific risk and compliance
(D) Financial leverage risk variables

Oct/Nov 2025

13. The following case describes a risk evaluation scenario: A manufacturing firm evaluates three scenarios for a new facility. The expected NPV is Rs. 5,200 lakhs. If the firm implements the pessimistic scenario where investment rises to Rs. 48,000 lakhs and sales drop to Rs. 30,000 lakhs, the resulting NPV turns into a negative Rs. 14,900 lakhs. The optimistic scenario yields Rs. 10,080 lakhs.
What primary risk consideration does this scenario analysis highlight?
(A) The project carries severe downside risk if all variables concurrently face their worst values.
(B) The project is immune to simultaneous variable degradation.
(C) All variables will predictably move in the same direction at the same time in reality.
(D) The expected scenario mathematically

guarantees an exit window.

May/June 2009

14. In a typical sensitivity analysis for a manufacturing project, all of the following variables are commonly tested for their independent impact on NPV, EXCEPT:
(A) Initial Investment Required
(B) Expected Sales Volume
(C) The decision maker's age
(D) Projected Variable Costs

Oct/Nov 2014

15. Which of the following is a correct statement regarding Simulation Analysis?
(A) It replaces the skilled judgement required in selecting variables and combinations.
(B) It completely eliminates the problem of correlation between variables.
(C) Its manual calculations are brief and straightforward.
(D) Its capacity to handle multi-factor projects is a significant advantage.

May/June 2019

16. Risks faced in situations involving a politically unstable country, high technology, or hazardous chemicals are formally defined as:
(A) Project specific risks
(B) Standalone risks
(C) Contextual risks
(D) Marketing risks

Oct/Nov 2006

17. Match the simulation variables in List I with their descriptions in List II.
List I: Simulation Variables
P. Parameters
Q. Exogenous variables
R. Endogenous variables
S. Simulation Analysis
List II: Descriptions
1. Determined outside the model, beyond the decision maker's control
2. Input variables specified by the decision maker
3. Creating an artificial situation to find likelihood under scenarios
4. Yield derived from internal control factors like seeds and water
(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-3, R-1, S-2
(D) P-3, Q-4, R-2, S-1

May/June 2012

18. What is the correct chronological sequence of steps involved in order to perform a sensitivity analysis?
I. Developing a mathematical understanding of the connections between the different variables.
II. Identifying the factors that have an impact on the NPV (or IRR) of the project.
III. Conducting an analysis to determine how the changes in each of the variables will affect the net present value (or internal rate of return).
(A) I, II, III
(B) II, I, III
(C) III, I, II
(D) II, III, I

Oct/Nov 2024

19. According to the Hillier Model, how is the risk associated with cash inflows reflected?
(A) By the difference between variable and fixed costs.
(B) By the correlation between marketing risk and corporate risk.
(C) By the expected scenario value derived from a decision tree.
(D) By the standard deviation, where less deviation indicates lower risk.

May/June 2023

20. Which of the following best describes the operational difference between sensitivity analysis and scenario analysis?
(A) Scenario analysis evaluates concurrent variable movements under specific conditions.
(B) Sensitivity analysis changes all variables simultaneously, whereas scenario analysis changes only one variable.
(C) Scenario analysis ignores pessimistic scenarios entirely to focus on robust investment.
(D) Sensitivity analysis restricts variable movement to positive directions only.

Oct/Nov 2010

21. Consider the following statements regarding the steps in Simulation Analysis:

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I. Select a value at random from the probability distributions of each of the exogenous variables.
II. Determine the NPV with relation to the randomly generated values.
III. Simulate the exercise to any number of times to generate a large number of simulated NPV.
IV. Plot the frequency distribution of the NPV to consider which simulation is most probable.

Which combination of statements is correct?
(A) I, II, and III
(B) II, III, and IV
(C) I, II, III, and IV
(D) I, III, and IV

May/June 2005

22. Consider the following statements regarding the impact of corporate actions on unit performance:
I. Corporate fights and takeover bids have the propensity to affect the performance of a unit.
II. Such corporate conflicts eliminate the need to account for risk while preparing a capital budget.

Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2018

23. An enterprise considers a new project where a 2.5 percent adverse variance is applied to selling price, variable cost, fixed cost, and units sold independently. Evaluating the impact on the Net Present Value (NPV), the selling price reduction accounts for a 24.82 percent total change, while variable cost accounts for 12.41 percent. Which strategic conclusion should management draw?
(A) Variable cost fluctuations dictate the project's ultimate viability.
(B) Fixed cost increases present an identical risk profile to selling price.
(C) Initial capital cost overruns pose the most significant project threat.
(D) Selling price sensitivity indicates the project's highest vulnerability.

May/June 2016

24. Simulation in the context of capital budgeting risk analysis means:
(A) A purely deceptive mathematical projection of historical data.
(B) A physical scale model built to test operational capacity.
(C) A strict replication of a competitor's strategic business moves.
(D) Creating artificial situations to determine likelihood under various scenarios.

Oct/Nov 2009

25. Identify the correct pair regarding the conditions in scenario analysis.
(A) Optimistic Scenario - Expected values for all variables
(B) Pessimistic Scenario - Worst values are placed for the variables
(C) Normal Scenario - Best values are taken for the variables
(D) Expected Scenario - Variables move in opposing directions simultaneously

May/June 2025

26. Going international and producing on a large scale primarily confronts a business with:
(A) Corporate takeover threats arising from hostile market acquisitions
(B) Project specific risks related to aerospace and rocketry engineering
(C) Absolute certainty regarding market demand and customer preferences
(D) Marketing risks due to unknown regulations, culture, and sensitivity

Oct/Nov 2021

27. An agricultural project relies on seeds, fertilisers, and water as input variables specified by the farm manager. However, the ultimate yield of 100 tons is heavily dependent on rainfall.
For the purpose of simulation analysis, how should the rainfall be classified?
(A) As an exogenous variable determined outside the internal model.
(B) As an endogenous parameter controlled by the project's lead manager.
(C) As a deterministic project reward based on previous historical yields.
(D) As a perfectly correlated cash inflow relative to fertilizer application.

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the year, what is the most appropriate action according to the cost estimate guidelines?
(A) Use contingency cushioning for unpredictable escalations.
(B) Assume raw material prices will remain perfectly correlated with domestic inflation rates.
(C) Base the budget solely on current spot prices without accounting for potential variance.
(D) Classify the import cost as a completely controllable internal operational risk factor.

May/June 2024

72. Match the project selection methodologies in List I with their key characteristics in List II.
List I: Project Selection Methodologies
P. Judgemental capabilities
Q. Payback period
R. Risk adjusted discount rate
S. Certainty equivalent method
List II: Key Characteristics
1. Adjusts the discount rate by adding differential risk
2. Subjective brainstorming by a senior executive committee
3. Decides an amount of return which is equivalent to certainty
4. Attempts to become risk free quickly based on time
(A) P-1, Q-2, R-3, S-4
(B) P-2, Q-4, R-1, S-3
(C) P-4, Q-3, R-2, S-1
(D) P-3, Q-1, R-4, S-2

Oct/Nov 2008

73. All of the following are characteristics of flexibility in investing, EXCEPT:
(A) A project may start with an expected X amount but end up costing X plus.
(B) The promoter must decide on a strict cut-off point beyond which they may not fund.
(C) Decisions depend heavily on the management's risk-taking abilities and return expectations.
(D) Management maintains an unlimited risk appetite regardless of revenue.

May/June 2006

74. Consider the following statements comparing project selection methods:
I. Judgemental capabilities involve subjective brain storming.
II. The payback period presumes that risk is a function of time.
III. The normal cost of capital is used as the discount rate when no risk is anticipated.
IV. The risk-adjusted discount rate incorporates a differential risk factor based on firm comparison.
V. The certainty equivalent method calculates alpha using highly certain acceptable cash flows divided by expected probabilistic cash flows.
Which combination of statements is correct?
(A) I, II, and III
(B) I, III, IV, and V
(C) I, II, III, IV, and V
(D) II, IV, and V

Oct/Nov 2017

75. A promoter initiates a project with a Rs. 50 crore budget. Due to unexpected environmental compliance delays, costs escalate. The promoter evaluates the risk coverage and refuses to inject funds beyond Rs. 65 crores, resulting in project suspension. This action demonstrates:
(A) Perfect correlation among internal cash flows
(B) Uncorrelated exogenous project parameters
(C) Subjective nature of the payback period
(D) A predetermined cut-off point in investing

NODIA

May/June 2008

76. Why is the Certainty Equivalent method considered conceptually better than the risk-adjusted discount rate method?
(A) It automatically incorporates a constant rate of risk increase over time.
(B) It is exceptionally simple to specify a series of certainty equivalent coefficients.
(C) It exclusively uses the average cost of capital without adjustments.
(D) It does not assume that risk increases with time at a constant rate.

Oct/Nov 2013

77. Match the capital budgeting terms in List I with their corresponding descriptions in List II.
List I: Capital Budgeting Terms
P. Capital Budgeting
Q. Corporate Risk
R. Simulation
S. Decision Tree
List II: Descriptions

but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2014

34. Consider the following statements regarding contingency planning:
I. It acknowledges that it will not always be possible to avoid or take care of all risks.
II. It involves preparing an action plan to face and provide for a risk to a manageable extent.
III. It draws up assigned duties to identified staff to cope with adverse events.
IV. It prevents any adverse events from possibly happening.
Which combination of statements is correct?
(A) I, II, and IV
(B) II, III, and IV
(C) I, III, and IV
(D) I, II, and III

Oct/Nov 2017

35. Which variable is identified as the biggest variable that poses the highest degree of risk?
(A) The cost
(B) Information intelligence
(C) Derivatives
(D) Strategic alliance

May/June 2011

36. The methodology that presumes risk is a function of time and seeks to control risk by bringing it closer to reality through determining how fast the investment is recovered is known as:
(A) How quickly we become risk free
(B) Certainty equivalent method
(C) Risk adjusted discount rate
(D) Simulation analysis

Oct/Nov 2012

37. The process of evaluating the outcome in Decision Tree Analysis starts from:
(A) The last branch of the tree till it comes to the starting point.
(B) The first node and moves forward to the last branch.
(C) The expected value and moves upward to the standard deviation.
(D) The endogenous variables and moves to the exogenous variables.

May/June 2018

38. Information Intelligence advises checking all of the following before jumping into a new venture, EXCEPT:
(A) A new product.
(B) A new technology.
(C) A new territory.
(D) The depth of the water with both feet.

Oct/Nov 2007

39. An automobile manufacturer releases a new model within two years instead of the industry average of four years. The company captures market expectations early and faces less competition. This risk management strategy leverages:
(A) Contingency planning
(B) Supply chain management
(C) Sequential investment
(D) Shorter time to market

May/June 2006

40. Identify the correct statement using the Assertion (A) and Reason (R) provided below.
Assertion (A): The management's attempt to reap the benefits of diversification by venturing into a new field may face pressure on share prices.
Reason (R): Disapproving shareholders might decide to exit or offload their equity, preferring to invest directly in a company that is already a leader in that segment.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2020

41. Which of the following is an incorrect statement regarding the drawbacks of the risk-adjusted discount rate method?
(A) It is difficult to reliably estimate dk.
(B) Its value is frequently arrived at in a manner that is very ad hoc and arbitrary.
(C) It assumes that the level of risk remains relatively stable throughout time.

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May/June 2020

28. Consider the following statements regarding sensitivity analysis:

I. It is a good method of assessing risk, enabling the determination of how robust or weak a project is.

II. It helps identify vulnerable aspects, allowing plan amendments to contain the risk.

III. It guarantees a positive internal rate of return for all pessimistic scenarios.

Which combination of statements is correct?

(A) I and II

(B) II and III

(C) I and III

(D) I, II, and III

Oct/Nov 2015

29. Consider the following statements regarding the Hillier Model:

I. When cash flows for different years are perfectly correlated, the behaviour of cash flows in all years is alike.

II. When cash flows are uncorrelated, it implies that cash inflow in any particular year will be independent of the cash inflow in any other year.

Which of the statements is/are correct?

(A) Only I

(B) Only II

(C) Both I and II

(D) Neither I nor II

May/June 2013

30. Identify the correct statement using the Assertion (A) and Reason (R) provided below.

Assertion (A): To calculate the impact of changes in one variable under sensitivity analysis, the other variables are presumed to remain constant.

Reason (R): Sensitivity analysis is primarily designed to show how the simultaneous movement of all variables in the same direction affects the internal rate of return.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2013

31. A company engaged in toiletries decides to sell personal care products targeting the same customer base. This approach, evaluated under corporate risk analysis, is an example of:

(A) Backward integration mitigating standalone operational risk factors.

(B) A continuous process plant addressing frequent technical breakdowns.

(C) Diversification where the new project complements the overall profile.

(D) An aggressive foreign sourcing strategy for raw material acquisition.

May/June 2022

32. Match the risk management strategies in List I with their corresponding mechanisms in List II.

List I: Risk Management Strategies

P. Supply chain management

Q. Derivatives

R. Shorter time to market

S. Contingency planning

List II: Mechanisms

1. Using futures, options, or embedding tools in debt instruments
2. Long term sustainable arrangements for sourcing key inputs
3. Drawing up a detailed action plan with assigned duties to staff
4. Reaping the benefits of an early bird with less predictability of competitor response

(A) P-1, Q-2, R-3, S-4

(B) P-2, Q-1, R-4, S-3

(C) P-4, Q-3, R-2, S-1

(D) P-3, Q-4, R-1, S-2

Oct/Nov 2023

33. Identify the correct statement using the Assertion (A) and Reason (R) provided below.

Assertion (A): When evaluating the outcome in a Decision Tree, one continues to move backward, calculating the estimated NPV at each node, selecting the decision of higher value and discarding the other.

Reason (R): The process of preparing the tree is called delineating, which inherently evaluates probabilities moving from the starting point to the final reward.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true,

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V. The corporate profile should ideally lose its identity to minimise risk.

Which combination of statements is correct?
(A) I, II, and V
(B) I, III, and IV
(C) II, III, and V
(D) I, IV, and V

Oct/Nov 2014

49. A pharmaceutical company, rather than building its own multi-crore plant, decides to get the product manufactured outside and hires staff through manpower agencies rather than employing permanent labour. Which element of risk management is predominantly being exercised?
(A) The cost
(B) Pricing
(C) Shorter time to market
(D) Insurance

May/June 2019

50. Which of the following is an incorrect statement regarding sequential investment?
(A) Management is often tempted to decide about fresh investment based on current trend and business growth.
(B) The strategy may hurt financially if excess capacity turns into a bane when the market gets flooded.
(C) Fresh investment always serves as a boon by augmenting capacity.
(D) Consumer preference may suddenly change due to innovation, turning excess capacity into a financial burden.

Oct/Nov 2006

51. Which of the following correctly represents the components of the risk-adjusted discount rate formula (rk = i + n + dk)?
(A) Variable i represents the normal corporate risk.
(B) Variable n represents the risk-free interest rate.
(C) Variable rk represents the certainty coefficient.
(D) Variable dk represents the project's differential risk.

May/June 2021

52. Corporate Risk Analysis is conceptually defined as:
(A) The exclusive mitigation of marketing risks through insurance.
(B) The elimination of completely uncontrollable external variables.
(C) The separation of a project's cash flow independent of the overall product profile.
(D) Analyzing a project's impact on the firm's combined risk profile.

Oct/Nov 2010

53. In the context of managing risk, risks are broadly categorised into:
(A) Fixed and variable constraints.
(B) Endogenous and exogenous nodes.
(C) Internal and external, controllable and uncontrollable risks.
(D) Optimistic and pessimistic deviations.

May/June 2005

54. Consider the following statements regarding risk management strategies:
I. Insurance is used as an antidote to hedge against known risks like fire, flood, and cybercrime, giving peace of mind.
II. Supply chain management is completely ineffective against international market manipulations and vagaries.

Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2022

55. When a business keeps a Special Purpose Vehicle (SPV) with an appropriate name and objects ready for a quick decision to exploit sudden opportunities, it is practicing:
(A) Strategic Alliance
(B) Supply chain management
(C) Financial Leverage
(D) Contingency planning

May/June 2018

56. Which of the following is an incorrect statement regarding Decision Tree Analysis?
(A) Further uncertainties associated with each decision prevent the tree from growing additional branches.
(B) It is a graphical representation of possible outcomes with their associated probabilities.
(C) A node represents the reward of the decision

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(D) It conceptually accounts for varying degrees of risk independently across each year of the project's life.

May/June 2008

42. Match the following terms from Decision Tree Analysis in List I with their corresponding definitions in List II.

List I: Terms

P. Branch
Q. Node
R. Drawing the tree
S. Evaluating the outcome

List II: Definitions

1. First step involving the delineation of alternative courses
2. Second step starting from the last branch to the starting point
3. Represents a decision or an alternative course of action
4. Represents the reward and the attached probability

(A) P-1, Q-2, R-3, S-4
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-1, R-4, S-3

Oct/Nov 2009

43. Identify the correct pair regarding the derivatives as a risk management tool.

(A) Option to buy - Put option
(B) Owner of the option - The one who buys an option
(C) Option to sell - Call option
(D) Embedded in debt - Restricts borrower from early repayment

May/June 2016

44. Financial Leverage as a risk management strategy is best exemplified by:

(A) Deciding whether to employ permanent labour or hire through manpower agencies.
(B) Determining the breakeven point and risk-perceived price.
(C) Using futures and options to hedge against raw material price volatility.
(D) The decision to buy or lease based on financing and control.

Oct/Nov 2018

45. When a project is evaluated by a pool of talented senior executives using brain storming without special methods or complicated calculations, the method is known as:

(A) Risk adjusted discount rate
(B) Certainty expectations
(C) Evaluation using judgemental capabilities
(D) Decision tree outcome evaluation

May/June 2023

46. A finance manager is evaluating project choices using a decision tree. The probability associated with an NPV of Rs. 5 lakh is 40% and the probability associated with an NPV of Rs. 4 lakh is 60%. What is the estimated NPV evaluated at this specific node?

(A) Rs. 4.0 lakh
(B) Rs. 4.4 lakh
(C) Rs. 4.6 lakh
(D) Rs. 5.0 lakh

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Oct/Nov 2025

47. Consider the following statements regarding derivatives:

I. A call option gives the right to buy an underlying product before a given date at a predetermined price.
II. The owner exercises the option to minimise the cost of purchase or maximise the sell price.
III. Derivatives embedded in debt instruments eliminate the risk of high leveraging entirely.

Which combination of statements is correct?

(A) II and III
(B) I and II
(C) I and III
(D) I, II, and III

May/June 2012

48. Consider the following statements regarding diversification and corporate risk:

I. A diversification strategy may reduce overall risk and protect the business from cyclical downfall.
II. In a corporate structure, diversification with the object of risk mitigation finds universal favour among all shareholders.
III. Shareholders might prefer investing directly into segment leaders rather than having their current company risk venturing into new fields.
IV. Disapproving shareholders may exit or offload equity, putting pressure on share prices.

perceives that the risk associated with this new plant capacity is higher than their existing risk profile. Consequently, they apply a higher discount rate than their normal cost of capital to calculate a positive NPV. Which project selection methodology is being strictly applied?
(A) Flexibility in investing
(B) Decision tree analysis
(C) Revenue estimation conservatism
(D) Activity Based Costing

Oct/Nov 2024

65. Consider the following statements regarding the Certainty Equivalent Method:
I. It deals with the variability of outcomes and attitude towards risk.
II. It assumes that risk increases with time at a constant rate.
III. Each year's certainty equivalent coefficient is calculated based on the level of risk characterising that year's cash flow.
IV. It is generally less popular than the risk-adjusted discount rate method due to practical difficulties in specifying coefficients.
Which combination of statements is correct?
(A) I, III, and IV
(B) I, II, and III
(C) II, III, and IV
(D) I, II, III, and IV

May/June 2017

66. A corporate board wants to quickly assess how vulnerable their new software project is to an upward movement in server costs and a simultaneous fall in subscription revenue. Based on industry preference surveys, which technique are they most likely to deploy first?
(A) Sensitivity analysis
(B) Risk adjusted discount rate
(C) Decision tree analysis
(D) Evaluating non-financial considerations

Oct/Nov 2005

67. The Certainty Equivalent method is conceptually distinguished from the risk-adjusted discount rate method by all of the following traits, EXCEPT:
(A) It deals with variability of outcomes and the attitude towards risk.
(B) It settles down for a lower but certain return over a higher but uncertain return.
(C) It explicitly presumes that risk increases at a constant rate with time.
(D) It is less popular due to the inconvenience of specifying a series of certainty equivalent coefficients.

May/June 2020

68. In Risk Analysis in Practice, the fundamental principle dictating revenue estimation is:
(A) Optimism
(B) Conservatism
(C) Leveraging
(D) Endogenous forecasting

Oct/Nov 2015

69. Based on the survey of business preferences, match the project evaluation technique in List I to its sequential rank in List II.
List I: Project Evaluation Technique
P. Sensitivity Analysis
Q. Scenario Analysis
R. Risk Adjusted Discount Rate
S. Decision Tree Analysis
List II: Sequential Rank
1. Fourth preference
2. First preference
3. Second preference
4. Third preference
(A) P-2, Q-3, R-4, S-1
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-4, Q-1, R-2, S-3

May/June 2013

70. In a board meeting evaluating a new venture, members engage in a fierce debate. Some display high optimism, another acts as a devil's advocate, and discussions cover side effects, collateral damages, and capital constraints without deploying any complicated mathematical models. This scenario exemplifies:
(A) Simulation analysis using random variables
(B) Decision tree analysis for outcome rewards
(C) Evaluation using judgemental capabilities
(D) Scenario analysis for expected future states

Oct/Nov 2021

71. A domestic firm relies heavily on imported electronic chips. Geopolitical tensions introduce severe volatility in chip prices. To manage this specific practical risk while budgeting for

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along with the probability attached to that reward.
(D) It requires the management to decide the factors to be taken into account depending upon the size and importance of the project.

Oct/Nov 2016

57. Identify the correct statement using the Assertion (A) and Reason (R) provided below.
Assertion (A): In financial leverage, relying heavily on borrowing upsets the ideal debt equity ratio and brings down the profitability.
Reason (R): Large equity poses a risk of dilution of control over management and ownership, making the balance between finance cost and promoter capacity critical.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2014

58. All of the following are cited as factors or examples influencing a corporate diversification or backward integration strategy, EXCEPT:
(A) The need to rely on a single income source for stability.
(B) Target customers remaining the same for new complementary products.
(C) Frequent power shortages compelling the start of a captive power plant.
(D) Protecting the business from cyclical downfall when one project faces a slump.

Oct/Nov 2007

59. A large business group decides to keep a list of areas of interest and expertise at instant access, along with a handy draft MOU to quickly partner with willing networks when an opportunity suddenly arises. This approach is an implementation of:
(A) Financial Leverage
(B) Sequential Investment
(C) Strategic Alliance
(D) Scenario Analysis

May/June 2025

60. Which of the following is a correct statement regarding pricing in risk management?
(A) The cost structure of the company always allows pricing the product below any market level.
(B) Competitors and market conditions may force a company to peg down the price.
(C) Pricing is an issue entirely independent of external market factors.
(D) Determining a risk-perceived price removes the need to calculate a breakeven point.

Oct/Nov 2019

61. A large company decides to fund an expansion project. The management perceives that the risk associated with this new plant capacity is higher than their existing risk profile. Consequently, they apply a higher discount rate than their normal cost of capital to calculate a positive NPV. Which project selection methodology is being strictly applied?
(A) Hillier Statistical Model
(B) Dynamic Sensitivity Analysis
(C) Risk adjusted discount rate
(D) Project Payback period

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May/June 2009

62. Which analysis technique is described as creating varying states (normal, optimistic, pessimistic) and potentially uncovering a need for substantial adjustments to expectations, helping secure a reasonable return and quickest exit window?
(A) Scenario Analysis
(B) Activity Based Costing
(C) Certainty Equivalent Method
(D) Relevant Cost Concepts

Oct/Nov 2011

63. Identify the incorrect pair regarding the variables in the risk-adjusted discount rate formula.
(A) i - Adjustment for the company's normal risk
(B) rk - Risk-adjusted discount rate for project k
(C) n - Adjustment for the company's normal risk
(D) dk - Adjustment for project k's differential risk

May/June 2010

64. A company engaged in toiletries decides to fund an expansion project. The management

1. Graphical depiction of possibilities or outcomes
2. Not real, imitation or deception
3. A must for project implementation, estimates future costs and revenues
4. Impact of a project on the firm's combined risk profile

(A) P-4, Q-3, R-1, S-2
(B) P-2, Q-1, R-4, S-3
(C) P-1, Q-2, R-3, S-4
(D) P-3, Q-4, R-2, S-1

May/June 2015

78. An investor is presented with two options: an 11% return on Rs. 10,000 invested or a 20% return on Rs. 100,000 invested. The investor prefers certainty and settles for a guaranteed 10% return on an investment not exceeding Rs. 25,000. This behavioural adjustment is best encapsulated by which project selection method?
(A) Judgemental capability evaluation
(B) Risk adjusted discount rate
(C) Cost-Volume-Profit analysis
(D) Certainty Expectations

Oct/Nov 2012

79. According to a survey on the order of preference of businesses for various project evaluation techniques, which technique is listed first?
(A) Decision Tree Analysis
(B) Sensitivity Analysis
(C) Risk Adjusted Discount Rate
(D) Scenario Analysis

May/June 2011

80. Identify the correct statement using the Assertion (A) and Reason (R) provided below.
Assertion (A): The certainty equivalent method is more popular among businesses than the risk-adjusted discount rate method.
Reason (R): The certainty equivalent method conceptually accounts for varying degrees of risk independently across each year of a project.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2020

81. A management team is evaluating a decision to accept a special order. They specifically analyse the breakeven point and the relationship between their pricing, variable overheads, and total units produced. Which specific decision-making framework is being applied?
(A) Decision Making using Activity Based Costing models
(B) Decision Making using Ethical Considerations and values
(C) Decision Making using Cost-Volume-Profit (CVP) Analysis
(D) Decision Making using Relevant Cost Concepts and inputs

May/June 2022

82. A project presents a first set of cash inflows of Rs. 10,000 with a probability of 0.6, and a second set of Rs. 15,000 with a probability of 0.4. If the cash inflow acceptable with high certainty is Rs. 11,000, what is the calculated certainty equivalent coefficient?
(A) 0.85
(B) 0.92
(C) 1.05
(D) 1.10

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Oct/Nov 2023

83. Consider the following statements regarding the risk-adjusted discount rate method:
I. The firm's cost of capital is measured by (i + n).
II. The differential risk (dk) can only be positive, never negative.
III. The adjustment for differential risk is contingent on the management's risk perception and risk-return trade-off.
Which combination of statements is correct?
(A) I and II
(B) II and III
(C) I, II, and III
(D) I and III

May/June 2021

84. Match the Decision Making frameworks in List I with their context in List II.
List I: Decision Making Frameworks
P. Cost-Volume-Profit (CVP)
Q. Relevant Cost Concepts
R. Activity Based Costing
S. Non-Financial Considerations

List II: Context
1. Focusing on ethics and qualitative impacts
2. Focusing on breakeven points and volume scaling
3. Focusing only on costs applicable to the specific decision
4. Focusing on allocating overheads based on operational drivers

(A) P-1, Q-2, R-3, S-4
(B) P-4, Q-1, R-2, S-3
(C) P-2, Q-3, R-4, S-1
(D) P-3, Q-4, R-1, S-2

Oct/Nov 2006

85. Which of the following is an incorrect statement regarding cost estimates in practical risk analysis?
(A) Cost estimates require a safety margin from 10% to 30% depending on the nature or type of cost.
(B) Raw material prices are volatile, particularly if they comprise commodities.
(C) Cost aspects follow the same conservative scaling as revenue estimation.
(D) A contingency cost cushion is required to provide safety against escalations.

May/June 2012

86. Identify the incorrect pair regarding the variables in the Certainty Equivalent method formula.
(A) α_t - Certainty equivalent co-efficient in period t
(B) i_0 - The internal rate of return at index n
(C) A_t - Annual expected after-tax cash flow in period t
(D) R_f - Risk-free rate of return which functions as the cost of capital

Oct/Nov 2011

87. An infrastructure project calculates baseline material costs at Rs. 100 crores. However, knowing that prices of imported commodities are unpredictable, the budgeting committee approves a final cost allocation of Rs. 130 crores. This 30% enhancement directly aligns with which principle of risk analysis in practice?
(A) Expected scenario validation through management
(B) Cost Estimates safety margin cushioning
(C) Certainty equivalent deduction and adjustment
(D) Revenue optimism avoidance and scaling

May/June 2010

88. Consider the following statements regarding the "how quickly we become risk free" method:
I. Opponents, particularly in securities investments, argue that risk is evened out in the long term and the one who stays put has the last laugh.
II. Proponents assume that shorter term eliminates all exogenous variables and prevents competitive action.

Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2009

89. Match the practical risk analysis concepts in List I with their specific characteristics in List II.
List I: Risk Analysis Concepts
P. Revenue Estimation
Q. Cost Estimates
R. Flexibility in investing
S. Sensitivity Analysis
List II: Specific Characteristics
1. Testing impact of upward cost movement and revenue fall
2. Establishing a cut-off point for further funding
3. Applying conservatism to avoid optimism
4. Keeping a 10% to 30% safety margin for raw materials

(A) P-4, Q-3, R-1, S-2
(B) P-3, Q-4, R-2, S-1
(C) P-1, Q-2, R-3, S-4
(D) P-2, Q-1, R-4, S-3

May/June 2007

90. Identify the correct statement using the Assertion (A) and Reason (R) provided below.
Assertion (A): The risk-adjusted discount rate method is conceptually flawed because it presumes that risk increases at a constant rate with time.
Reason (R): In practical scenarios, the level of risk may remain relatively stable or fluctuate unpredictably over the duration of the project.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation

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of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

91. Consider the following statements regarding capital budgeting concepts:
I. Capital budgeting is a must for project implementation.
II. Risk analysis is considered a very slippery aspect of capital budgeting.
III. Sensitivity analysis and scenario building are accorded no weightage in final capital investments.
IV. Simulation means creating an artificial situation to test variations in basic factors.
V. A decision tree is a graphical depiction of possibilities to solve specific issues or avail potential opportunities.
Which combination of statements is correct?
(A) I, II, III, and IV
(B) I, II, IV, and V
(C) II, III, IV, and V
(D) I, III, IV, and V

May/June 2017

92. Consider the following aspects of return expectations and project flexibility:
I. The duration of wait for the return heavily influences management's flexibility.
II. A short payback period is often preferred to minimise risk.
III. Setting a cut-off point in advance restricts the definition of minimum attainable objectives.
Which combination of statements is correct?
(A) II and III
(B) I and III
(C) I and II
(D) I, II, and III

Oct/Nov 2016

93. Consider the following statements regarding practical risk estimation:
I. Because revenue is not in complete control, estimation should follow the principle of conservatism to avoid jeopardising the project.
II. Unlike revenue, the cost aspect is considered a committed amount and requires a contingency margin for escalations.
Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2018

94. Identify the correct statement using the Assertion (A) and Reason (R) provided below.
Assertion (A): The certainty equivalent method is less popular in practice than the risk-adjusted discount rate method.
Reason (R): The certainty equivalent method is conceptually flawed because it accurately measures varying variability of outcomes across each specific year.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2014

95. Consider the following frameworks used in decision making:
I. Decision Making using Cost-Volume-Profit (CVP) Analysis.
II. Decision Making using Relevant Cost Concepts.
III. Decision Making using Activity Based Costing.
IV. Ethical and Non-Financial Considerations Relevant to Decision Making.
Which combination is correct?
(A) I, II, III, and IV
(B) I, II, and III
(C) II, III, and IV
(D) I, III, and IV

May/June 2015

96. Consider the following components that influence practical cost estimates:
I. Volatility of raw material prices, particularly imported commodities.
II. Industry standards for staff and labour costs.
III. Attrition cost and skill development expenses.
Which combination is explicitly required to be considered while keeping safety margins?

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plans to mitigate those risks. However, it cannot guarantee a positive internal rate of return, as pessimistic outcomes can still result in financial losses regardless of the analysis.

29. (C) Both I and II
The Hillier Model addresses different levels of dependency between annual cash flows. Perfect correlation occurs when the performance in one year is mirrored in subsequent years, reflecting consistent behavior. Conversely, uncorrelated cash flows occur when the inflow in a specific year is entirely independent of previous or future results, necessitating different mathematical approaches for calculating risk.

30. (C) Assertion (A) is true, but Reason (R) is false.
Sensitivity analysis isoloates the impact of a single variable by keeping all other factors constant during the calculation. The logic behind this method is to identify the relative importance of individual inputs. It is specifically designed to test one-by-one changes, whereas scenario analysis is the technique used to evaluate the simultaneous movement of multiple variables.

31. (C) Diversification where the new project complements the overall profile.
When a company expands its product line to target the same customer base with complementary goods, it is engaging in a diversification strategy. In corporate risk analysis, this approach is evaluated by how the new project integrates with the existing business profile, potentially reducing overall firm risk by leveraging existing customer relationships and distribution channels.

32. (B) P-2, Q-1, R-4, S-3
Supply chain management involves long-term sustainable arrangements for sourcing Wood and inputs. Derivatives like futures and options serve as financial tools for hedging. Reducing time to market allows companies to capture early-bird benefits and minimize competitor response. Contingency planning involves preparing detailed action plans and assigning duties to staff to handle potential adverse events effectively.

33. (C) Assertion (A) is true, but Reason (R) is false.
Evaluating a decision tree involves moving backward from the final outcomes to the starting point, calculating expected values at each node to select the best path. While the tree represents probabilities and rewards, the process of drawing it is simply called delineation, and the evaluation itself is what determines the optimal course of action.

34. (D) I, II, and III
Contingency planning starts with the recognition that not all risks can be avoided. It involves creating a manageable action plan to address risks if they occur and assigning specific duties to staff. While these plans help mitigate the impact of adverse events, they cannot entirely prevent such events from happening in a dynamic business environment.

35. (A) The cost
Among various factors in project budgeting, cost is often identified as the variable with the highest degree of risk. Unlike revenues, costs are often committed early in the project. Fluctuations in raw material prices, labor expenses, and technical complexities can lead to significant escalations that threaten the overall financial viability and return on investment.

36. (A) How quickly we become risk free
The "how quickly we become risk free" method, often associated with the payback period, assumes that risk increases over time. By prioritizing projects that recover their initial investment rapidly, managers aim to reduce exposure to long-term uncertainties. This approach focuses on liquidity and bringing the investment closer to reality through fast capital recovery.

37. (A) The last branch of the tree till it comes to the starting point.
Evaluating the outcomes in a decision tree is a backward induction process. The analysis begins at the terminal branches where the final rewards and probabilities are located. By moving backward toward the initial decision node and calculating expected values at each junction, the analyst can determine the most advantageous path to take.

38. (D) The depth of the water with both feet.
Information intelligence suggests thorough investigation before entering new markets or adopting new technologies. A common cautionary principle in risk management is to

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ANSWERS

1. (D) Measure how changes in individual variables affect project projections.
Sensitivity analysis evaluates how specific variations in key input variables, such as sales volume or costs, influence the financial outcomes of a project. By altering one factor at a time while keeping others constant, it identifies which elements have the most significant impact on the net present value or internal rate of return.

2. (C) Prof. Fredrick S. Hillier of Stanford University
The model that utilizes the standard deviation of cash inflows to analyze investment risk was developed by Professor Frederick S. Hillier. This approach provides a statistical framework for evaluating project risk by assessing the variability and distribution of future cash flows, allowing managers to understand the likelihood of different financial outcomes.

3. (C) They arise from the specific mode or form of conducting business operations.
Contextual risks are inherent to the specific manner or environment in which a business operates rather than being purely project-specific or external market risks. These risks involve the operational framework, including the methods of production and the organizational structure, which can significantly influence the project's overall success and risk profile.

4. (B) II, I, III
Simulation analysis begins with preparing a model project report based on expected lines to establish a baseline. Following this, the net present value or internal rate of return is calculated for that baseline. Finally, the analysis determines how specific parameters and exogenous variables influence the calculated financial outcomes through repeated iterations.

5. (B) Annual Cash Inflow
In sensitivity analysis, the factor causing the largest percentage change in the net present value for a fixed percentage change in the variable is considered the most sensitive. Here, a ten percent variance in annual cash inflow results in a sixty-three percent change in net present value, surpassing the impacts of other factors.

6. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Simulation analysis involves managing multiple complex interrelationships among various exogenous variables and parameters, making manual calculations extremely tedious. Because of this computational complexity and the need for numerous iterations to generate a reliable probability distribution, computers are essential for performing the mathematical operations required to evaluate project risks effectively and accurately.

7. (B) Land, plant, labour, materials, and working capital
Estimating costs in capital budgeting involves identifying all expenditures necessary for project implementation. This includes tangible investments like land and plant facilities, along with operational costs such as labour and materials. Additionally, working capital must be accounted for to ensure sufficient liquidity for day-to-day operations throughout the life cycle of the project.

8. (B) P-1, Q-3, R-2, S-4
Scenario analysis evaluates project performance under different sets of assumptions. In the expected scenario, variables assume normal values. The optimistic scenario uses the best possible values, while the pessimistic scenario incorporates the worst values. This technique serves as an extension of sensitivity analysis by allowing multiple variables to change simultaneously to test project robustness.

9. (D) Assertion (A) is false, but Reason (R) is true.
In the Hillier Model, the formulas used to calculate the standard deviation of the net present value differ significantly between perfectly correlated and uncorrelated cash flows. Perfect correlation implies that cash flow behavior remains consistent across all years, while lack

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of correlation suggests that inflows in different periods are entirely independent of each other.

10. (C) It evaluates multiple variables changing simultaneously in the same direction.
Sensitivity analysis typically involves changing only one input variable at a time to observe its specific impact on the project's net present value. It does not naturally account for the simultaneous movement of multiple variables. Evaluating the concurrent movement of several factors is a characteristic of scenario analysis rather than standard sensitivity analysis.

11. (D) A decision which is an alternative course of action.
In decision tree analysis, a branch represents a specific choice or an alternative course of action available to the management. These branches originate from decision nodes and lead to either further chance nodes or final outcomes, allowing for a visual and mathematical evaluation of sequential decisions under conditions of uncertainty and risk.

12. (C) Project specific risk and compliance
A manufacturing plant facing closure due to pollution control scrutiny is dealing with risks directly related to its specific operations and regulatory compliance. These are project-specific risks, as they stem from the particular nature of the facility's output, the equipment used, and the environmental regulations applicable to that specific site or industry.

13. (A) The project carries severe downside risk if all variables concurrently face their worst values.
Scenario analysis highlights the potential for significant losses when multiple negative factors occur at the same time. In this case, the shift from a positive expected net present value to a substantial negative value under the pessimistic scenario demonstrates how simultaneous declines in sales and increases in investment costs create severe financial vulnerability.

14. (C) The decision maker's age
Sensitivity analysis focuses on economic and operational variables that directly impact project cash flows and financial viability. Factors such as initial investment, sales volume, and variable costs are critical parameters. Personal characteristics like the age of the decision maker do not have a direct mathematical relationship with the project's net present value or projections.

15. (D) Its capacity to handle multi-factor projects is a significant advantage.
Simulation analysis excels at managing complex projects where many variables interact in non-linear ways. While it requires sophisticated software and does not eliminate correlation problems or replace skilled judgment, its ability to process thousands of possible combinations of input factors provides a more comprehensive view of the project's probability distribution than simpler methods.

16. (C) Contextual risks
Risks arising from operating in politically unstable environments, utilizing high technology, or handling hazardous materials are categorized as contextual risks. These risks are linked to the specific context or form of business operations. They necessitate thorough evaluation because the underlying environment can drastically alter the project's feasibility, safety requirements, and financial stability over time.

17. (A) P-2, Q-1, R-4, S-3
In simulation analysis, parameters are input variables specified by the decision maker. Exogenous variables are determined outside the model and are beyond internal control, such as rainfall. Endogenous variables represent yields or outcomes derived from internal factors. Simulation itself is the process of creating artificial situations to determine the likelihood of outcomes under various scenarios.

18. (B) II, I, III
Performing sensitivity analysis requires first identifying the specific factors that influence the net present value or internal rate of return. Next, the analyst must develop a mathematical understanding of the relationships between these variables. Finally, the analysis is conducted to measure how variations in each factor individually impact the project's overall financial outcome.

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19. (D) By the standard deviation, where less deviation indicates lower risk.
The Hillier Model utilizes statistical measures to evaluate investment risk. It specifically uses the standard deviation of net present value as a proxy for risk. A smaller standard deviation reflects less variability in potential outcomes, indicating a lower risk level, whereas a larger standard deviation suggests higher uncertainty and greater potential for deviation from expected inflows.

20. (A) Scenario analysis evaluates concurrent variable movements under specific conditions.
Sensitivity analysis typically changes one variable at a time to isolate its impact on project outcomes. In contrast, scenario analysis examines the combined effect of multiple variables changing simultaneously. This allows managers to evaluate project performance under specific conditions, such as a recession or a boom, where several input factors move together.

21. (C) I, II, III, and IV.
Simulation analysis involves a systematic process starting with selecting random values from probability distributions for each exogenous variable. These values are used to calculate the net present value. The exercise is repeated numerous times to generate a large dataset of results, which is then plotted as a frequency distribution to determine probability.

22. (A) Only I
Corporate events such as internal fights or takeover bids can significantly disrupt the management and operational stability of a business unit. These conflicts introduce risks that must be accounted for in capital budgeting. Rather than eliminating the need for risk assessment, these situations make it even more critical to evaluate potential impacts on unit performance.

23. (D) Selling price sensitivity indicates the project's highest vulnerability.
When a small change in a specific variable results in a disproportionately large change in the net present value compared to other factors, that project is most sensitive to that variable. Here, the selling price variance causes the largest total change in NPV, signaling that the project's success is highly dependent on price stability.

24. (D) Creating artificial situations to determine likelihood under various scenarios.
In capital budgeting, simulation involves developing a mathematical model to imitate the performance of a project under various conditions. By assigning probability distributions to input variables and running numerous iterations, the analysis creates artificial scenarios. This helps decision makers understand the likelihood and range of possible financial outcomes before committing actual capital.

25. (B) Pessimistic Scenario - Worst values are placed for the variables
Scenario analysis evaluates different future states for a project. The pessimistic scenario is specifically defined by assigning the worst possible values to all relevant variables, such as low sales and high costs. This provides management with an understanding of the project's viability under the most adverse conditions and identifies the maximum potential downside.

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26. (D) Marketing risks due to unknown regulations, culture, and sensitivity.
Businesses expanding internationally face significant marketing risks. These arise from operating in unfamiliar territories with unique cultural preferences, varying consumer sensitivities, and different regulatory environments. Such factors make it difficult to predict market demand and customer behavior accurately, requiring careful budgeting and risk management to ensure the project remains viable in diverse markets.

27. (A) As an exogenous variable determined outside the internal model.
In simulation analysis, factors that significantly impact the outcome but are beyond the control of the management are classified as exogenous variables. For an agricultural project, while seeds and fertilizers are controlled parameters, rainfall is determined by external natural forces. Therefore, it is treated as an input whose value is determined outside the model.

28. (A) I and II
Sensitivity analysis is a robust method for assessing risk by identifying how vulnerable a project is to changes in key variables. It allows management to pinpoint weak areas and amend

(A) I and II
(B) I, II, and III
(C) II and III
(D) I and III

Oct/Nov 2012

97. Consider the following characteristics regarding the adjustment of risk in capital budgeting:
I. Certain risks are standalone while others are contextual.
II. The cost variable, including raw materials and manpower, poses the highest degree of risk.
III. Simulation heavily relies on computer computations to handle complex interrelationships.
IV. The certainty equivalent method conceptually assumes risk increases at a constant rate with time.
V. A corporate diversification strategy is always universally supported by all shareholders without impacting share prices.
Which combination of statements is correct?
(A) I, II, and III
(B) I, II, IV, and V
(C) II, III, and V
(D) I, III, IV, and V

May/June 2011

98. Consider the following statements regarding the sources and management of risk:
I. Standalone risks are strictly distinct from contextual risks that arise due to business mode or form.
II. Project specific risks include those heavily dependent on high technology or politically unstable countries.
III. Sensitivity analysis evaluates the impact of changing multiple variables simultaneously.
IV. Corporate risk analysis measures the combined risk profile of the firm after taking up a new project.
V. Decision tree nodes represent the reward of the decision along with the attached probability.
Which combination of statements is correct?
(A) I, II, III, and V
(B) I, II, IV, and V
(C) II, III, IV, and V
(D) I, III, IV, and V

Oct/Nov 2010

99. Consider the following statements regarding Scenario Analysis in practice:
I. It creates scenarios such as normal, optimistic, and pessimistic.
II. It strikes at the roots of initial estimates.
III. It uncovers positions that may require substantial adjustments in expectations.
IV. It is generally ranked as the first preference among all evaluation techniques.
Which combination of statements is correct?
(A) II, III, and IV
(B) I, III, and IV
(C) I, II, III, and IV
(D) I, II, and III

May/June 2025

100. Identify the correct statement using the Assertion (A) and Reason (R) provided below.
Assertion (A): When estimating costs in practice, a safety margin of 10% to 30% is typically required to provide cushioning against unpredictable escalations.
Reason (R): Unlike revenue, the cost aspect is considered a committed amount and relies on volatile factors such as imported raw material prices and skill development expenses.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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avoid jumping into the water with both feet simultaneously. This implies that businesses should test the environment incrementally or maintain some safety instead of committing all resources to an unproven venture.

39. (D) Shorter time to market
Releasing a new product faster than the industry average is a strategy known as shorter time to market. This approach allows a company to capture market demand before competitors can react, reducing the risk of changing consumer preferences and maximizing the period of competitive advantage. It is an effective tool for managing market-related uncertainties.

40. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Diversification into new fields can sometimes lead to downward pressure on a company's share price. This happens because shareholders may disagree with the new direction and prefer to invest directly in firms that are already established leaders in that segment. Consequently, these investors may sell their holdings, resulting in an increased supply of shares.

41. (D) It conceptually accounts for varying degrees of risk independently across each year of the project's life.
One of the major criticisms of the risk-adjusted discount rate method is that it applies a constant risk adjustment over the entire life of the project. It does not allow for varying risk levels in different years. Instead, it assumes that risk increases at a constant rate with time, which may not reflect real-world volatility.

42. (C) P-3, Q-4, R-1, S-2
In a decision tree, a branch represents a decision or alternative course of action. A node represents a reward and its associated probability. Drawing the tree is the initial step of delineating the alternatives. Finally, evaluating the outcome is the second step, which involves moving from the last branch back to the start.

43. (B) Owner of the option - The one who buys an option
In the context of derivatives, the owner of an option is the individual or entity that pays a premium to acquire the right to buy or sell an underlying asset. A call option provides the right to buy, while a put option provides the right to sell. These tools are used for hedging against price volatility.

44. (D) The decision to buy or lease based on financing and control.
Financial leverage as a risk management strategy involves choosing between different financing structures. Deciding whether to buy an asset with equity or debt versus leasing it involves evaluating the impact on the firm's balance sheet, control, and fixed financial obligations. This choice directly affects the project's profitability and the firm's overall risk profile.

45. (C) Evaluation using judgemental capabilities
When project evaluation is based on the collective experience and insights of senior executives rather than complex mathematical modeling, it is referred to as evaluation using judgmental capabilities. This qualitative approach leverages professional intuition and brainstorming to assess risks and opportunities, which can be as effective as quantitative methods for strategic decisions.

46. (B) Rs. 4.4 lakh
To calculate the estimated net present value at a specific node, one must find the weighted average of the outcomes. Multiplying five lakh by forty percent results in two lakh, and multiplying four lakh by sixty percent results in two point four lakh. Adding these together yields a total estimated value of four point four lakh.

47. (B) I and II
A call option provides the right to purchase an asset at a set price before a specific date. Owners exercise these options to secure better prices and manage costs. However, while derivatives embedded in debt can help manage specific risks, they do not entirely eliminate the broader risks associated with high financial leverage.

48. (B) I, III, and IV
Diversification can reduce overall firm risk and protect against industry-specific downturns. However, shareholders do not always favor this, as they may prefer to select their own sector exposures by investing in market

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leaders. If investors disapprove of a company's diversification strategy, they may offload their equity, potentially causing the share price to decline.

49. (A) The cost
By outsourcing manufacturing and using manpower agencies instead of building facilities and hiring permanent staff, a company manages the cost variable of risk. This strategy transforms fixed costs into variable ones and reduces initial capital commitment. This flexibility allows the enterprise to scale down or exit with minimal financial loss if the project fails.

50. (C) Fresh investment always serves as a boon by augmenting capacity.
Sequential investment is not always beneficial. While expanding capacity can help meet growing demand, it can also become a financial burden if market conditions change or competitors flood the market. Excess capacity resulting from poorly timed fresh investments can lead to high fixed costs and reduced profitability, especially if consumer preferences shift unexpectedly.

51. (D) Variable dk represents the project's differential risk.
In the risk-adjusted discount rate formula, the total discount rate is composed of the risk-free rate, the normal corporate risk, and a differential risk factor. Specifically, dk represents the additional risk premium unique to the project being evaluated. This allows the firm to adjust its required rate of return based on the project's specific riskiness.

52. (D) Analyzing a project's impact on the firm's combined risk profile.
Corporate risk analysis focuses on how a new project affects the overall risk level of the entire company. Instead of viewing a project's risks in isolation, this approach considers the correlations and interactions between the new venture and the firm's existing portfolio of activities to understand the resulting impact on total corporate stability.

53. (C) Internal and external, controllable and uncontrollable risks.
In the context of managing risk, risks are generally categorized based on their source and the degree of control the firm has over them. Internal risks arise within the organization and are often controllable, while external risks come from the broader environment and are typically uncontrollable, such as economic shifts or regulatory changes.

54. (A) Only I
Insurance is a common tool used to hedge against specific, known risks like fire or theft, providing financial protection and peace of mind. While supply chain management cannot eliminate all international market vagaries, it is certainly not completely ineffective; rather, it is a vital strategy for mitigating supply disruptions and cost volatility through better coordination.

55. (A) Strategic Alliance
Maintaining a Special Purpose Vehicle with appropriate objects allows a company to act quickly when an opportunity for a partnership or new venture arises. This preparation facilitates the formation of strategic alliances with other entities. By having the legal and operational structure ready in advance, the business can exploit sudden market opportunities more efficiently than competitors.

56. (A) Further uncertainties associated with each decision prevent the tree from growing additional branches.
Further uncertainties associated with each decision do not prevent the tree from growing additional branches. Decision trees are designed to handle sequential uncertainties. If a decision leads to further unknown outcomes, the tree can and should grow additional branches to represent those subsequent possibilities. This branching reflects the reality of multi-stage decision-making where each choice may lead to new risks and rewards that require further analysis and evaluation.

57. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Excessive borrowing increases interest obligations and financial risk, which can negatively impact profitability and debt-to-equity ratios. Simultaneously, relying too heavily on equity can dilute ownership control. Both statements accurately describe different aspects of financial

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risk management, but the reason concerning ownership dilution does not explain why high borrowing costs reduce profitability.

58. (A) All of the following are cited as factors or examples influencing a corporate diversification or backward integration strategy, EXCEPT:
Diversification is actually driven by the need to avoid relying on a single income source. By expanding into complementary products or backward integration, such as building a captive power plant, a firm seeks to stabilize its overall performance. Relying on one source increases vulnerability to industry slumps, which is the opposite of a stable corporate strategy.

59. (C) Strategic Alliance
A business group that maintains a list of expertise and ready-to-use draft agreements is positioning itself for a strategic alliance. This proactive approach enables the firm to partner rapidly with other organizations when specific opportunities arise. By streamlining the legal and administrative process of cooperation, the firm can gain a competitive edge in fast-moving industries.

60. (B) Competitors and market conditions may force a company to peg down the price.
Pricing is heavily influenced by external factors like market demand and the actions of competitors. Even if a company has a specific cost structure or desired profit margin, it must often adjust its prices downward to remain competitive. Effective risk management requires understanding these market dynamics and calculating a risk-perceived price that ensures viability.

61. (C) Risk adjusted discount rate
When a management team applies a discount rate that is higher than the standard cost of capital to account for the perceived riskiness of a new project, they are using the risk-adjusted discount rate method. This technique ensures that a project must generate higher returns to be accepted if it carries more risk than the firm's average.

62. (A) Scenario Analysis
Scenario analysis involves creating different future states, such as optimistic, pessimistic, and normal, to test how a project would perform. This technique helps management understand the potential range of outcomes and identify if substantial adjustments are needed to their expectations. It provides insights into the robustness of the project and the likelihood of achieving returns.

63. (A) *i* - Adjustment for the company's normal risk
In the risk-adjusted discount rate formula, the variable '*i*' represents the risk-free rate of interest, not the company's normal risk. The normal corporate risk is typically represented by 'n', while 'dk' accounts for the project's specific differential risk. Misidentifying these components leads to incorrect calculations of the required rate of return for risky projects.

64. (C) Revenue estimation conservatism
When a company perceives higher risk and applies a higher discount rate or more conservative assumptions to its projections, it is practicing revenue estimation conservatism. This approach ensures that the project remains viable even if future revenues are lower than initially hoped. It serves as a safety mechanism against over-optimism in capital budgeting and financial forecasting.

65. (A) I, III, and IV
The certainty equivalent method evaluates the variability of outcomes and the investor's attitude toward risk. It allows for different risk coefficients to be applied to each year's cash flows based on specific risk levels. While conceptually sound, it is less popular in practice because managers find it difficult to specify the required coefficients accurately.

66. (A) Sensitivity analysis
Sensitivity analysis is frequently the first technique businesses use to assess risk because of its simplicity. It allows management to quickly identify how a project's net present value reacts to changes in individual variables, such as increasing costs or decreasing revenues. This immediate feedback helps prioritize which risks require further investigation or mitigation strategies.

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CHAPTER 12
Decision Making

Oct/Nov 2024

1. How many pillars are stated to be part of the Character-Based Decision-Making Model?
(A) Four
(B) Five
(C) Six
(D) Seven

May/June 2013

2. Which of the following statements correctly interprets the relevant cost of setting the price of a product for mass consumption?
(A) The relevant cost relies entirely on the book cost or numerical cost of the item
(B) Marginal increases in price carry no risk of permanent loss of customer base
(C) Analysis of market factors including consumer preference and price sensitivity
(D) Demand elasticity is typically low enough to easily absorb price increases

Oct/Nov 2008

3. What is the definition of a 'Cost Pool' within the Activity Based Costing system?
(A) The direct cost of material and labour allocated to a product
(B) An overhead cost that cannot be traced to any specific activity
(C) A grouping of costs incurred on an activity which drives them
(D) The total assembly cost divided by the total labour hours used

May/June 2005

4. Which of the following statements regarding rationalizations of obstacles to ethical decision making is incorrect?
(A) "It's All for a Good Cause" is considered a rationalization obstacle
(B) "I Was Just Doing It for You" is identified as an ethical obstacle rationalization
(C) The Golden Rule states "Harm when you can and avoid help when you can"
(D) "It's Ok if I Don't Gain Personally" is a rationalization of obstacles

Oct/Nov 2019

5. Why does the introduction of a new product in the market generally result in delayed breakeven points?
(A) High volumes are expected immediately, leading to excessive capital investment
(B) Low initial sales volumes combined with low entry pricing to attract customers
(C) The lack of competitor response automatically inflates variable costs
(D) Fixed costs are completely eliminated, making profit realization impossible

May/June 2022

6. Creating an ethical framework within an organisation involves inculcating all of the following qualities EXCEPT:
(A) Trust
(B) Omnipotence
(C) Respect
(D) Responsible

Oct/Nov 2012

7. What defines an opportunity cost in the context of relevant cost concepts?
(A) A fixed cost that remains the same irrespective of the decision taken
(B) The benefit foregone from the next best alternative not selected
(C) An unavoidable cost incurred before the decision-making process starts
(D) A cost that requires the immediate payment of cash to acquire an asset

May/June 2011

8. Which of the following statements is correct regarding the cost components of profit analysis?
(A) The fixed cost per unit will go up if the volume of production or sales increases
(B) Variable cost generally varies with volume, but the variance will depend on the product mix and processes adopted
(C) Higher volume in sales always results in a proportionate decrease in marketing costs
(D) Higher volume of productions will generally

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always grows at a constant mathematical rate as time progresses, allowing for more precise adjustments based on year-specific risk factors.

77. (D) P-3, Q-4, R-2, S-1
Capital budgeting is essential for estimating future costs and revenues during project implementation. Corporate risk refers to the impact of a project on the firm's combined risk profile. Simulation is an imitation or artificial representation of reality. Finally, a decision tree provides a graphical depiction of various possibilities and outcomes under conditions of uncertainty.

78. (D) Certainty Expectations
An investor who chooses a lower, guaranteed return over a higher but uncertain one is exhibiting a preference for certainty. This behavioral approach is captured by the certainty expectations method, where expected risky cash flows are reduced to an amount that the investor would accept with complete confidence, aligning the investment choice with their specific risk tolerance.

79. (B) Sensitivity Analysis
Based on surveys of business practices, sensitivity analysis is consistently ranked as the most popular and first-choice technique for evaluating project risk. Its high preference is due to its relative ease of application and its ability to provide clear insights into which individual factors most significantly impact the financial feasibility and success of a proposed investment.

80. (D) Assertion (A) is false, but Reason (R) is true.
While the certainty equivalent method is conceptually stronger because it measures varying risk levels for each year independently, it is actually less popular in practice than the risk-adjusted discount rate method. This is because managers find it easier to estimate a single risk-adjusted interest rate than to determine a series of accurate certainty equivalent coefficients for every year.

81. (C) Decision Making using Cost-Volume-Profit (CVP) Analysis
Cost-Volume-Profit analysis focuses on how changes in costs and sales volume affect a company's profit. By analyzing the relationship between selling price, variable costs, and fixed overheads, management can determine the breakeven point and the impact of accepting special orders on the firm's bottom line. This framework is essential for short-term operational decision-making and profit planning.

82. (B) 0.92
The expected cash inflow is calculated by multiplying the outcomes by their probabilities: (10,000 x 0.6) + (15,000 x 0.4), which equals 12,000. The certainty equivalent coefficient is found by dividing the certain cash inflow by this expected value. Dividing 11,000 by 12,000 results in approximately 0.9167, which rounds to zero point nine two.

83. (D) I and III
In the risk-adjusted discount rate method, the baseline cost of capital for a normal project is the sum of the risk-free rate and the normal corporate risk. The additional adjustment for differential risk (dk) depends on management's perception of the specific project's risk. While usually positive, dk could technically be negative if the project is less risky than average.

84. (C) P-2, Q-3, R-4, S-1
Cost-Volume-Profit analysis focuses on breakeven points and volume scaling. Relevant cost concepts isolate costs that change specifically due to a decision. Activity-based costing allocates overheads based on operational drivers. Finally, non-financial considerations focus on qualitative factors such as ethics, reputation, and social impacts that cannot be easily measured by purely financial metrics.

85. (C) Cost aspects follow the same conservative scaling as revenue estimation.
Cost aspects do not follow the same conservative scaling as revenue estimation. Revenue estimation follows the principle of conservatism by being cautious and avoiding overestimation. In contrast, cost estimation should be approached by including safety margins and contingency cushions to account for potential escalations. Therefore, they do not follow the same scaling direction; revenue is intentionally kept low while cost estimates are intentionally kept high for safety.

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86. (B) i_0 - The internal rate of return at index n.
In standard capital budgeting formulas, i_0 typically represents the initial investment or cash outlay at time zero, rather than an internal rate of return index. Other components include the certainty equivalent coefficient for each period, the expected after-tax cash flows, and the risk-free rate of return used as the discount factor for those certain equivalents.

87. (B) Cost Estimates safety margin cushioning
Increasing a budget from one hundred crores to one hundred thirty crores to account for unpredictable commodity prices is an application of safety margin cushioning. This practice ensures that the project has enough financial resources to handle unexpected cost escalations. It is a fundamental principle of practical risk analysis to provide a buffer for volatile external factors.

88. (A) Only I
The "how quickly we become risk free" method is criticized by some who believe that staying invested for the long term eventually evens out risks. Proponents argue for quick recovery to minimize exposure to time-based risks, but this does not entirely eliminate all exogenous variables or stop competition. Therefore, only the statement regarding the critics' perspective on long-term investment is correct.

89. (B) P-3, Q-4, R-2, S-1
Revenue estimation applies conservatism to avoid over-optimism. Cost estimates include a ten to thirty percent safety margin for raw materials. Flexibility in investing involves establishing a cut-off point for future funding. Sensitivity analysis tests the impact of individual changes, such as upward cost movements or falling revenues, to identify the project's most vulnerable financial aspects.

90. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The risk-adjusted discount rate method is conceptually criticized because it mathematically compounds the risk premium over time, implying that risk necessarily increases at a constant rate. In reality, project risks can be stable or fluctuate unpredictably. This mismatch between the mathematical model and real-world risk behavior is a fundamental conceptual limitation of using a constant risk-adjusted discount rate.

91. (B) I, II, IV, and V
Capital budgeting and risk analysis are vital but complex parts of project implementation. Simulation and decision trees are important graphical and mathematical tools used to evaluate possibilities. Contrary to being ignored, sensitivity analysis and scenario building are actually accorded significant weight in final investment decisions by businesses looking to understand their exposure to potential variations.

92. (C) I and II
Management flexibility is heavily influenced by how long they must wait for a return on investment. Consequently, a shorter payback period is often preferred to reduce the duration of risk exposure. While setting a cut-off point is a disciplined approach, it is intended to limit losses rather than restrict the definition of the project's minimum attainable objectives.

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93. (C) Both I and II
Practical risk management requires a cautious approach to financial projections. Revenue estimation must follow the principle of conservatism because sales are not entirely within the firm's control. On the other hand, costs are often committed and predictable up to a point, but still require contingency margins to handle potential escalations in raw materials or other external expenses.

94. (C) Assertion (A) is true, but Reason (R) is false.
It is true that the certainty equivalent method is less popular in practice than the risk-adjusted discount rate method. However, this is not because it is conceptually flawed; it is actually conceptually superior for measuring varying year-specific risks. The lack of popularity is due to the practical difficulty of accurately determining the required certainty coefficients for each period.

95. (A) I, II, III, and IV
Comprehensive decision-making in a business context involves multiple frameworks. These include quantitative methods like Cost-Volume-Profit analysis and Relevant Cost concepts for short-term choices, as well as Activity-Based

Costing for accurate overhead allocation. Furthermore, ethical and non-financial considerations must be integrated to ensure that decisions align with company values and long-term reputation beyond just the numbers.

96. (B) I, II, and III
When establishing safety margins in cost estimates, several factors must be considered. These include the volatility of raw material prices, especially for imported goods, as well as prevailing industry standards for labor costs. Additionally, indirect costs such as attrition and the expenses associated with developing required skills among the workforce are essential elements for creating a realistic budget.

97. (A) I, II, and III
Risks are categorized as standalone or contextual, with costs being one of the highest risk variables. Simulation requires computers to manage its complexity. However, the certainty equivalent method does not assume risk increases at a constant rate with time—that is a characteristic of RADR. Furthermore, corporate diversification is rarely universally supported and can negatively impact share prices.

98. (B) I, II, IV, and V
Risks are correctly split into standalone and contextual types, with technology-heavy or unstable environments creating project-specific risks. Corporate risk analysis properly looks at the firm's combined profile, and decision tree nodes represent rewards and probabilities. Sensitivity analysis is incorrect here because it typically changes only one variable at a time, not multiple variables simultaneously.

99. (D) I, II, and III
Scenario analysis is a powerful tool that uses normal, optimistic, and pessimistic states to test the foundations of initial estimates. It helps uncover where adjustments in expectations are needed. However, while highly valued, it is generally ranked as the second preference among businesses, with sensitivity analysis typically holding the top spot in terms of actual usage and preference.

100. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Including a safety margin of ten to thirty percent in cost estimates is a standard practice to protect against unforeseen escalations. This is necessary because costs are often committed amounts that are subject to volatile external factors like the prices of imported raw materials and specialized labor training. These uncertainties justify the use of a financial cushion to ensure project stability.

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(B) Full capacity engagement where no additional labor or overtime is available
(C) When the cost of hiring temporary labour is strictly outsourced
(D) When the salaries of permanent labour must be incurred regardless of the production schedule

Oct/Nov 2015

34. Consider the following statements regarding ethical frameworks:
I. Fairness involves taking decisions on compassionate grounds when rules do not cover certain situations.
II. Being civil means being courteous or polite in our behaviour voluntarily.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2021

35. Match the elements of the ethical framework within an organisation in List I with their characteristics in List II.
List I: (Ethical Element)
P. Trust
Q. Respect
R. Responsible
S. Care
List II: (Characteristic)
1. Displaying universality whether to a worker, customer, or competitor, focusing on reputation over profit
2. Being considerate and accountable, never hurting or insulting others
3. Coexisting with differing ideologies and honour, promoting oneness
4. Improving reliability in the market through integrity and honesty
(A) P-4, Q-3, R-2, S-1
(B) P-2, Q-4, R-1, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2024

36. Consider the following statements regarding the steps in the Activity Based Costing (ABC) System:
I. Identify different activities within the organisation.
II. Identify the indirect cost of the products as the primary base.
III. Determine the activity cost drivers.
Which of the above statement(s) is/are correct?
(A) Only I and II
(B) Only I and III
(C) Only II and III
(D) I, II, and III

May/June 2006

37. What is the most appropriate reason to consider outsourcing an activity such as payroll accounting or IT management?
(A) Because of identifiable cost and specialised functions
(B) To maximize the total unavoidable costs of the organisation
(C) To obscure the transparent information on cost ramifications
(D) To ensure the permanent loss of the customer base

Oct/Nov 2017

38. Match the steps of the Character-Based Decision-Making Model in List I with their sequence number in List II.
List I: (Decision Step)
P. Choose
Q. Consider Consequences
R. Monitor and Modify
S. Determine Facts
List II: (Sequence Number)
1. Step 3
2. Step 5
3. Step 6
4. Step 7
(A) P-3, Q-2, R-4, S-1
(B) P-2, Q-3, R-1, S-4
(C) P-4, Q-1, R-2, S-3
(D) P-3, Q-4, R-1, S-2

May/June 2008

39. Consider the following statements regarding Sunk Costs:
I. Sunk costs are wrongly incurred expenditures and have no benefit to the organisation.
II. Sunk costs are irrelevant to the decision of making a choice between present alternatives.
Which of the above statement(s) is/are correct?
(A) Only I

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increase the cost of production due to economy of scale

Oct/Nov 2023

9. Which of the following statements about Opportunity Cost is incorrect?
(A) It is a potential benefit or income given up by selecting an alternative over another
(B) Opportunity cost requires the payment of cash or its equivalent
(C) It arises only when the use of scarce resources is involved
(D) Utilizing a machine at 60% capacity for a new product line involves no opportunity cost

May/June 2016

10. In the context of the Activity Based Costing methodology, what follows identifying different activities within the organisation?
(A) Identify the overheads to be related to the activities
(B) Determine the activity cost drivers
(C) Identify the direct cost of the products
(D) Spread the support services across the primary activities

Oct/Nov 2009

11. All of the following are potential deterrents when considering Import Substitutes for cost reduction EXCEPT:
(A) Bulk purchase requirements
(B) Exchange fluctuations
(C) Stringent (LC) payment terms
(D) Good quality and lower prices

May/June 2023

12. What defines an 'Activity Cost Driver' in the context of Activity Based Costing?
(A) It measures the quantity of resources consumed by an activity
(B) It groups all overhead expenses into discrete work units
(C) It is a measure of production, marketing, research etc.
(D) It allocates overheads strictly based on the volume of production

Oct/Nov 2018

13. Which of the following statements accurately reflects a characteristic of the Character-Based Decision-Making Model?
(A) It provides a framework to decide whether a decision is morally and ethically sound
(B) It asserts that all business decisions should exclusively maximize pecuniary returns
(C) It eliminates the need for the "Golden Rule" in corporate environments
(D) It consists of a single-step path focused solely on developing options

May/June 2007

14. When establishing an ethical framework, what is the impact of ensuring 'Trust' within an organisation?
(A) It enables the company to endure financial hardships without employee input
(B) It guarantees that all competitors will respect the company's market share
(C) Market reliability and reputation achieved through integrity and honesty
(D) It eliminates the need for any corporate social responsibility measures

Oct/Nov 2025

15. When conducting a relevant cost analysis for a Make or Buy decision, all of the following represent associated costs EXCEPT:
(A) Direct materials
(B) Direct labour
(C) Other overhead expenses
(D) Past machinery costs

May/June 2012

16. How is a 'Cost Object' defined under the methodology of Activity Based Costing?
(A) Any product or service for which a separate cost measurement is desired
(B) A factor that causes a measurable change in the cost of a specific activity
(C) A grouping of costs incurred on a particular activity which drives them
(D) A measure of the quantity of resources consumed by an activity

Oct/Nov 2014

17. Which of the following statements about relevant and irrelevant costs is incorrect?
(A) Sunk costs are considered avoidable costs because they provide no future benefit
(B) Avoidable costs are categorized under relevant costs
(C) Unavoidable costs will have to be incurred irrespective of the outcome of the decision
(D) Relevant costs vary in total from one

NODIA

67. (C) It explicitly presumes that risk increases at a constant rate with time.
The certainty equivalent method is distinguished by its ability to handle different risk levels for each year independently. Unlike the risk-adjusted discount rate method, it does not assume that risk increases at a constant rate over time. Instead, it allows for year-specific adjustments, providing a more flexible but practically more complex framework for evaluating project risk.

68. (B) Conservatism
In practical risk analysis, revenue estimation should always be guided by the principle of conservatism. This means being realistic and cautious about future inflows rather than overly optimistic. By understating potential revenues and overstating potential costs, managers can ensure that the project is financially robust enough to survive even if the actual performance is less than ideal.

69. (A) P-2, Q-3, R-4, S-1
According to industry surveys, sensitivity analysis is generally the most preferred risk evaluation technique, ranking first. Scenario analysis follows as the second preference, with risk-adjusted discount rates coming in third. Decision tree analysis, despite its theoretical benefits, is often the least preferred among these common methods, ranking fourth due to its complexity.

70. (C) Evaluation using judgemental capabilities
A board meeting characterized by open debate, brainstorming, and qualitative assessments of risks like collateral damage represents evaluation using judgmental capabilities. This method relies on the collective wisdom and experience of senior management to weigh different perspectives without the immediate use of complex mathematical models or specialized software to reach a strategic decision.

71. (A) Use contingency cushioning for unpredictable escalations.
When a firm faces volatile and unpredictable prices for essential inputs like imported electronic chips, the most appropriate budgeting response is to include a contingency cushion. This safety margin provides a financial buffer against cost escalations that are beyond the firm's control, ensuring the project remains funded and viable even if raw material prices rise sharply.

72. (B) P-2, Q-4, R-1, S-3
Judgmental capabilities involve subjective brainstorming by executives. The payback period focuses on how quickly an investment becomes risk-free based on time. The risk-adjusted discount rate adds a differential risk factor to the discount rate. Finally, the certainty equivalent method identifies an amount of return that is equivalent to a guaranteed, certain outcome for the investor.

73. (D) Management maintains an unlimited risk appetite regardless of revenue.
Flexibility in investing requires management to set limits on their risk exposure. A key part of this strategy is establishing a strict cut-off point beyond which they will no longer provide funding. Maintaining an unlimited risk appetite regardless of project performance is the opposite of flexible and disciplined investment management, as it could lead to catastrophic financial losses.

74. (C) I, II, III, IV, and V
All these methods represent different approaches to risk. Judgmental capabilities are qualitative, while the payback period emphasizes time-based risk. The normal cost of capital applies when no extra risk is expected. RADR uses differential risk premiums, and the certainty equivalent method uses a coefficient (alpha) to adjust expected cash flows to their certain equivalents.

75. (D) A predetermined cut-off point in investing
When a promoter decides to stop funding a project after costs reach a specific limit, they are applying a predetermined cut-off point. This is a risk management strategy that prevents the "sunk cost fallacy" by defining in advance the maximum amount of capital the firm is willing to lose before abandoning a venture that has become non-viable.

76. (D) It does not assume that risk increases with time at a constant rate.
The certainty equivalent method is considered conceptually superior because it can account for different levels of risk in each year of a project's life. It avoids the flawed assumption of the risk-adjusted discount rate method that uncertainty

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relevant cost analysis
(C) Naturally, the alternative with the highest cost is the one to choose to ensure premium quality
(D) The decision only applies to completely new businesses and not to continuously running plants

Oct/Nov 2007

26. How does the concept of 'sunk costs' define certain financial expenditures?
(A) Future costs which will be affected by a specific business decision
(B) Costs that vary in total from one alternative to another
(C) Costs that are specifically categorised as avoidable costs in planning
(D) Past costs irrelevant to a choice as they occurred before the decision

May/June 2025

27. All of the following are examples of rationalizations of obstacles to ethical decision making EXCEPT:
(A) Business decisions focusing strictly on the projected Return on Investment
(B) If It's Necessary, It's Ethical
(C) The False Necessity Trap
(D) I Can Still Be Objective

May/June 2009

28. Under the Activity Based CVP method, how is the Break-even Point (per month in units) calculated?
(A) {Fixed Cost p.m. + (number of set-ups × cost per set-up)} / Contribution p.u.
(B) Fixed Cost p.m. / Contribution p.u.
(C) {Monthly demand (units) × Contribution per unit} - Fixed Cost
(D) (Fixed Cost p.m. + Variable Cost p.u.) / Selling Price per unit

Oct/Nov 2011

29. Which of the following statements regarding the ethical consideration 'Is it fair?' is incorrect?
(A) Fairness means treating people or matter with equality without any favouritism or discrimination
(B) Fairness should be visible through actions, such as ensuring every segment of the workforce is fairly represented
(C) Fairness requires an organisation to always look at things strictly from the viewpoint of its own advantage
(D) When negotiating wage revision, the views, feelings, and requirements of the workers should be kept in mind

May/June 2010

30. What occurs when a firm accepts a large special order accompanied by conditions like extended credit periods or stringent goods return?
(A) The order is always worth accepting because it reduces inventory
(B) Disruptions to supplies to present customers are completely avoided
(C) The firm automatically achieves a permanent increase in its customer base
(D) The offer may not be worth accepting despite primarily looking attractive

May/June 2017

31. Arrange the first four steps of the seven-step path in the Character-Based Decision-Making Model in their correct sequence:
1. Develop Options
2. Clarify Goals
3. Determine Facts
4. Stop and Think

(A) 4 - 2 - 3 - 1
(B) 2 - 4 - 1 - 3
(C) 4 - 3 - 2 - 1
(D) 1 - 2 - 3 - 4

Oct/Nov 2005

32. Which of the following pairs incorrectly matches the decision-making area with its core characteristic under relevant costing?
(A) Heavy discount offers from suppliers - Curtailed credit and disproportionate engagement in inventory
(B) Setting price of a product - Focuses strictly on book cost and numerical cost
(C) Add or drop a product line - Loss of income from the discontinued product
(D) Outsourcing an activity - Identifiable cost and specialized functions

May/June 2020

33. Under what circumstance is the opportunity cost of labour most appropriately included in the cost of set-up?
(A) When permanent labour used for set-up is otherwise idle

NODIA

alternative to another

May/June 2019

18. In a traditional CVP study, how are fixed costs defined?
(A) Costs that do not change in proportion to the amount of product or service being purchased
(B) Costs that change in proportion to the amount of product or service being purchased
(C) Costs that represent the incremental cost due to upscaling the facilities
(D) Costs that are entirely dependent on the product mix and processes adopted

Oct/Nov 2006

19. Which of the following statements is correct regarding the impact of machine set-ups on production efficiency?
(A) Reduced number of set-ups decreases the machine's utilisation
(B) Increased set-up time provides the organisation with more freedom to alter production batches
(C) Setup expenses have no effect on the flexibility of production
(D) Lower setup costs allowing for greater flexibility in production batches

May/June 2021

20. In relevant cost analysis, when is the cost of permanent labour used for set-up considered a sunk cost?
(A) When the permanent labour is otherwise idle and the salaries given to them have to be incurred even otherwise
(B) When the permanent labour is fully engaged in the production process and additional supplies are unavailable
(C) When the permanent labour is hired on a temporary basis for specific outsourcing operations
(D) When the permanent labour triggers an opportunity cost due to short-term overtime work

Oct/Nov 2010

21. All of the following are stated as stages or steps for the Activity Based Costing (ABC) System EXCEPT:
(A) Identify the project for costing exercise
(B) Spread the support services across the primary activities
(C) Eliminate all fixed costs to compute variable capacity
(D) Compute the total cost of the products or the objects

Oct/Nov 2022

22. Which institution developed the Character-Based Decision-Making Model?
(A) Institute of Management Accountants
(B) Josephson Institute of Ethics
(C) Global Ethics Foundation
(D) International Corporate Governance Network

May/June 2018

23. How does the Activity Based Costing method differ philosophically from traditional allocation regarding accuracy?
(A) It relies on the premise that allocating by volume is always perfectly precise
(B) It assumes all indirect costs are fixed and irrelevant to product profitability
(C) It ensures absolute mathematical precision by eliminating all overheads
(D) It runs on the philosophy that it is better to be approximately right than precisely wrong

Oct/Nov 2016

24. Which of the following statements regarding Activity Based Costing is incorrect?
(A) The method focuses on activities, which are termed as the focus of the process
(B) It involves identifying each cost driving activity and apportioning its cost to different products or jobs
(C) Measuring units for cost drivers can be number of sales personnel or number of hours spent on a project
(D) The traditional approach allocates overheads calculated on the basis of cost drivers of the activities

May/June 2014

25. Which of the following statements is correct concerning the Make or Buy decision?
(A) Associated costs such as direct materials, direct labour, and other overhead expenses are excluded from the decision
(B) Freeing up space that can be rented out to generate additional cash is a factor in

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(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2013

40. Match the rationalizations of obstacles to ethical decision making in List I with their corresponding concepts in List II.
List I: (Rationalization)
P. Everyone's Doing It
Q. The False Necessity Trap
R. I Was Just Doing It for You
S. I'm Just Fighting Fire with Fire
List II: (Concept)
1. Justifying unethical actions because competitors or others are engaging in similar behaviour
2. Believing that an action is mandated by absolute need, ignoring other viable options
3. Committing a wrong action under the pretext of benefiting another individual or entity
4. Retaliating with unethical behaviour because the opposing party acted unethically first
(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-3, R-2, S-1
(D) P-1, Q-3, R-4, S-2

May/June 2015

41. Consider the following statements regarding ethical decision making:
I. Trust is a foundation of many relations, and breach of trust can be a legal ground for making a contract null and void.
II. The Golden Rule states: "Help when you can and avoid harm when you can."
III. A company that is not trustworthy will maintain its goodwill through aggressive marketing.
Which of the above statement(s) is/are correct?
(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) I, II, and III

Oct/Nov 2020

42. According to the Character-Based Decision-Making Model, what is the best description of the Golden Rule?
(A) Always stick to the Truth regardless of competitive advantage
(B) Do not care for past mistakes or reverses but always learn from it
(C) Help when you can and avoid harm when you can
(D) Action on everyone's part becomes the action of the company

May/June 2021

43. Which of the following pairs correctly matches the ethical action with its corresponding quality?
(A) Treating people with equality - Compassion
(B) Meeting commitments in a difficult situation - Trust
(C) Giving extended maternity leave - Fairness
(D) Acknowledging debt to the public - Respect

Oct/Nov 2025

44. Match the relevant cost categories in List I with their descriptors in List II.
List I: (Cost Category)
P. Relevant costs
Q. Irrelevant costs
R. Avoidable costs
S. Unavoidable costs
List II: (Descriptor)
1. Future costs which will be affected by a decision
2. Costs incurred only if a specific business decision is made
3. Costs that will have to be incurred irrespective of the outcome of the decision
4. Costs which are not affected by the decision
(A) P-1, Q-4, R-2, S-3
(B) P-2, Q-3, R-1, S-4
(C) P-4, Q-1, R-3, S-2
(D) P-1, Q-2, R-4, S-3

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May/June 2007

45. Consider the following statements regarding factors affecting investment decisions due to cost, volume, and price:
I. Building large capacity will need huge investment delaying the payback period.
II. A speciality product can be launched with high price and good margins but may need huge R&D expenditure.
III. To carve out a reasonable market share for consumer products, huge advertisement expenses will not affect profitability.
Which of the above statement(s) is/are correct?
(A) Only I and II

(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2019

80. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R):
Assertion (A): A company should outsource the production of a component if the supplier's unit price is significantly lower than the total internal production cost.
Reason (R): Relevant cost analysis for a make or buy decision takes into account direct materials, direct labour, overhead costs, and the ability to generate additional cash from freed-up premises.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2012

81. Epsilon Electronics installs an ABC system and identifies three overhead activity pools: Payroll Processing, Machinery Setup, and Quality Inspection. The total costs are Rs. 10,000 for Payroll Processing, Rs. 15,000 for Machinery Setup, and Rs. 5,000 for Quality Inspection. The respective cost drivers are: 500 labour hours, 300 machine hours, and 100 inspection batches.
What is the cost driver rate for Payroll Processing?
(A) Rs. 10 per labour hour
(B) Rs. 30 per labour hour
(C) Rs. 20 per labour hour
(D) Rs. 50 per labour hour

May/June 2011

82. Consider the following statements regarding rationalizations of obstacles to ethical decision making:
I. If It's Necessary, It's Ethical
II. The False Necessity Trap
III. It's Just Part of the Job
IV. It Doesn't Hurt Anyone
V. The ends justify the absolute truth
Which of the above statement(s) is/are correct?
(A) Only I, II, III, and IV
(B) Only II, III, IV, and V
(C) Only I, III, IV, and V
(D) I, II, III, IV, and V

Oct/Nov 2023

83. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R):
Assertion (A): Sunk costs are considered irrelevant to the decision of making a choice.
Reason (R): Sunk costs are made even before the decision-making process starts and remain the same irrespective of the decision.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2016

84. Delta Manufacturing uses a specialized machine to produce parts. The selling price is Rs. 10,000 per unit, and the variable cost is Rs. 8,000 per unit. Fixed costs are Rs. 15,00,000 per month. The monthly demand is 5,000 units. The machine produces parts in batches of 20 units. Each setup costs Rs. 1,000.
What is the total setup cost incurred per month?
(A) Rs. 2,00,000
(B) Rs. 5,00,000
(C) Rs. 2,50,000
(D) Rs. 10,00,000

Oct/Nov 2009

85. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R):
Assertion (A): Fairness in a business context means treating people or matter with equality without any favouritism or discrimination.
Reason (R): Treating people fairly keeps a company away from unbearable future pains and aids in remaining attached to the ground during unfair weather.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.

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Oct/Nov 2006

52. Arrange the following steps of the Activity Based Costing (ABC) System in their correct sequence:
1. Identify the overheads to be related to the activities
2. Compute the total cost of the products or the objects
3. Identify the direct cost of the products
4. Determine the activity cost drivers

(A) 3 - 1 - 4 - 2
(B) 1 - 3 - 2 - 4
(C) 3 - 4 - 1 - 2
(D) 1 - 4 - 3 - 2

May/June 2018

53. Match the decision-making areas involving the Relevant Cost Concept in List I with their corresponding considerations in List II.
List I: (Decision-making Area)
P. Add or drop a product line
Q. Make or buy decision
R. Setting price of a product
S. Accepting special orders
List II: (Consideration)
1. Considering conditions such as heavy discount or extended credit period or stringent goods return
2. Studying consumer preference, strength of competitors, and price sensitivity
3. Generating additional cash from rented premises if work is outsourced
4. Considering the cost of additional investment and recovery from the disbanded plant

(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-4, R-1, S-2
(C) P-4, Q-2, R-3, S-1
(D) P-1, Q-3, R-2, S-4

Oct/Nov 2016

54. Consider the following statements regarding Activity Based Costing:
I. The overhead costs of the company are identified with each cost driving activity.
II. The traditional approach allocates overheads based on cost drivers unlike in the ABC system.

Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2014

55. Which of the following pairs correctly matches the Activity Based Costing term with its primary categorization?
(A) Resource Cost Driver – Consumption measure
(B) Cost Pool – The final product or service produced
(C) Cost Object – A logical grouping of costs incurred
(D) Activity Cost Driver – A specific customer segment

Oct/Nov 2007

56. What is the best description of being 'civil' in the context of an organisation's ethical framework?
(A) Exhibiting a sense of civic duty and environmental protection
(B) Complaining about unfair treatment meted out by competitors
(C) Treating people with equality to guarantee higher absolute profits
(D) Making decisions based exclusively on the statutory compliance services available

May/June 2025

57. Consider the following statements regarding Opportunity Costs:
I. It requires the payment of cash or its equivalent.
II. It will arise only when the use of scarce resources is involved.
III. It is a potential benefit or income that is given up as a result of selecting an alternative.

Which of the above statement(s) is/are correct?
(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) I, II, and III

May/June 2009

58. Match the Activity Based Costing terms in List I with their definitions in List II.
List I: (ABC Term)
P. Cost Object
Q. Cost Pool
R. Resource Cost Driver
S. Activity Cost Driver
List II: (Definition)
1. A measure of production, marketing, research etc.
2. Grouping of the costs incurred on a

their output. Zenith's management initially argues they are legally distinct entities and not responsible for any unlawful activity at the factories.

According to the ethical framework provided, which rationalization trap is Zenith's management most likely falling into by arguing they are not engaged in any activity considered unlawful?

(A) It's All for a Good Cause
(B) If It's Legal and Permissible, It's Proper
(C) The False Necessity Trap
(D) I'm Just Fighting Fire with Fire

May/June 2019

92. Theta Auto requires 10,000 units of a specialized gear annually. A supplier offers to provide the gear at Rs. 25 per unit. If produced internally, the costs per unit are: Direct Materials Rs. 10, Direct Labour Rs. 8, and Overhead Costs Rs. 5. Additionally, special tools costing Rs. 30,000 are needed for internal production.

What is the total cost to Theta Auto if it decides to purchase the 10,000 gears from the supplier?

(A) Rs. 2,00,000
(B) Rs. 2,30,000
(C) Rs. 2,50,000
(D) Rs. 2,80,000

Oct/Nov 2006

93. Epsilon Electronics installs an ABC system and identifies three overhead activity pools: Payroll Processing, Machinery Setup, and Quality Inspection. The total costs are Rs. 10,000 for Payroll Processing, Rs. 15,000 for Machinery Setup, and Rs. 5,000 for Quality Inspection. The respective cost drivers are: 500 labour hours, 300 machine hours, and 100 inspection batches.

If Product A consumes 50 labour hours, what is the allocated Payroll Processing cost for Product A?

(A) Rs. 500
(B) Rs. 750
(C) Rs. 1,250
(D) Rs. 1,000

May/June 2021

94. Zenith Apparel decides to implement strict measures to monitor its independent factory suppliers. The company plans to deploy personnel to ensure compliance with its new safety standards.

Based on ethical best practices for global sourcing, what specific mechanism should Zenith establish to routinely inspect manufacturers?

(A) A marketing task force targeting consumer sentiment
(B) A legal team to draft indemnification contracts to shield Zenith from future NGO reports
(C) An audit team inspecting during the pre-sourcing and follow-up stages of the manufacturing process
(D) A public relations committee to release statements rationalizing the Wood-conditions as a necessity

Oct/Nov 2010

95. Theta Auto requires 10,000 units of a specialized gear annually. A supplier offers to provide the gear at Rs. 25 per unit. If produced internally, the costs per unit are: Direct Materials Rs. 10, Direct Labour Rs. 8, and Overhead Costs Rs. 5. Additionally, special tools costing Rs. 30,000 are needed for internal production.

What is the total cost of manufacturing the 10,000 gears internally, including the special tools?

(A) Rs. 260,000
(B) Rs. 230,000
(C) Rs. 250,000
(D) Rs. 280,000

Oct/Nov 2022

96. Epsilon Electronics installs an ABC system and identifies three overhead activity pools: Payroll Processing, Machinery Setup, and Quality Inspection. The total costs are Rs. 10,000 for Payroll Processing, Rs. 15,000 for Machinery Setup, and Rs. 5,000 for Quality Inspection. The respective cost drivers are: 500 labour hours, 300 machine hours, and 100 inspection batches.

If Product B requires 10 inspection batches, what is the allocated Quality Inspection cost for Product B?

(A) Rs. 100
(B) Rs. 500
(C) Rs. 250
(D) Rs. 1,000

May/June 2018

97. Zenith Apparel, a global brand, sources garments from independent factories in developing

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(C) Only II, III, and IV
(D) I, II, III, and IV

Oct/Nov 2015

64. Omega Corp receives a special order requiring 100 units of Material X and 300 units of Material Y. The company has zero inventory of Material X and must purchase it at Rs. 20 per unit. For Material Y, the company holds 200 units in old inventory purchased at Rs. 10 per unit, which can be sold in the market at a discounted price of Rs. 8 per unit. The remaining required units of Material Y must be purchased at the current market price of Rs. 12 per unit.
What is the relevant cost for Material X to fulfill the special order?
(A) Rs. 1,000
(B) Rs. 1,500
(C) Rs. 2,000
(D) Rs. 3,000

Oct/Nov 2021

65. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R):
Assertion (A): In practical profit analysis, higher volume in sales will automatically ensure a proportionate decrease in marketing cost.
Reason (R): Higher volume in sales may accompany a disproportionate increase in marketing cost, some of which will be for brand building.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2024

66. Omega Corp receives a special order requiring 100 units of Material X and 300 units of Material Y. The company has zero inventory of Material X and must purchase it at Rs. 20 per unit. For Material Y, the company holds 200 units in old inventory purchased at Rs. 10 per unit, which can be sold in the market at a discounted price of Rs. 8 per unit. The remaining required units of Material Y must be purchased at the current market price of Rs. 12 per unit.
What is the total relevant cost for Material Y to fulfill the special order?
(A) Rs. 2,800
(B) Rs. 2,000
(C) Rs. 2,600
(D) Rs. 3,200

May/June 2006

67. Consider the following statements regarding the Make or Buy decision based on relevant cost concepts:
I. Examples of associated costs are direct materials, direct labour, and other overhead expenses.
II. A business may free up space that can be rented out if it chooses to outsource certain functions.
III. Relevant cost analysis ensures that the alternative with the highest cost is chosen to maintain quality.
IV. Internal production costs such as special tools must be factored into the decision.
Which of the above statement(s) is/are correct?
(A) Only I, II, and III
(B) Only I, II, and IV
(C) Only II, III, and IV
(D) I, II, III, and IV

Oct/Nov 2017

68. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R):
Assertion (A): A large special order is always an offer worth accepting because it guarantees immediate profitability.
Reason (R): Large orders might be accompanied by conditions such as heavy discounts or extended credit periods that offset the advantages.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2008

69. Delta Manufacturing uses a specialized machine to produce parts. The selling price is Rs. 10,000 per unit, and the variable cost is Rs.

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8,000 per unit. Fixed costs are Rs. 15,00,000 per month. The monthly demand is 5,000 units. The machine produces parts in batches of 20 units. Each setup costs Rs. 1,000.
How many set-ups are required per month to meet the demand?
(A) 250
(B) 200
(C) 500
(D) 1,000

Oct/Nov 2013

70. Consider the following statements regarding ethical conduct and supply chain management:
I. A company might not be held directly accountable for the unethical business conduct of its vendors.
II. Contemporary businesses have a moral obligation to provide care to stakeholders connected via the supply chain.
III. A company can establish an audit team that routinely inspects manufacturers during pre-sourcing and follow-up stages.
IV. Major violations by suppliers should result in immediate nationalization of the factory.
V. A company should insist the supplier is available for periodic inspection to ensure compliance.
Which of the above statement(s) is/are correct?
(A) Only I, II, III, and V
(B) Only II, III, IV, and V
(C) Only I, III, IV, and V
(D) I, II, III, IV, and V

May/June 2015

71. Epsilon Electronics installs an ABC system and identifies three overhead activity pools: Payroll Processing, Machinery Setup, and Quality Inspection. The total costs are Rs. 10,000 for Payroll Processing, Rs. 15,000 for Machinery Setup, and Rs. 5,000 for Quality Inspection. The respective cost drivers are: 500 labour hours, 300 machine hours, and 100 inspection batches.
What is the cost driver rate for Machinery Setup?
(A) Rs. 50 per machine hour
(B) Rs. 30 per machine hour
(C) Rs. 40 per machine hour
(D) Rs. 60 per machine hour

Oct/Nov 2020

72. Consider the following statements regarding a company addressing ethical issues in its supply chain:
I. The brand has 175 owned and operated factories in 23 countries.
II. The brand originally ignored child labour problems by dealing with factories only as a customer.
III. Implementing a Code of Conduct is an action the brand can take to address ethical issues.
IV. Providing advance warning to watch groups about the identities of suppliers is a recommended action.
Which of the above statement(s) is/are correct?
(A) Only I, II, and III
(B) Only II, III, and IV
(C) Only I, III, and IV
(D) I, II, III, and IV

May/June 2022

73. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R):
Assertion (A): The cost of permanent labour used for machine setup, who would otherwise be idle, is excluded from setup costs.
Reason (R): The salaries given to permanent idle labour have to be incurred even otherwise, making this cost a sunk cost.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2008

74. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R):
Assertion (A): Opportunity cost will arise as a part of decision making only when the use of scarce resources is involved.
Reason (R): Opportunity cost requires the immediate payment of cash to secure the alternative resource.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of

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Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

75. Omega Corp receives a special order requiring 100 units of Material X and 300 units of Material Y. The company has zero inventory of Material X and must purchase it at Rs. 20 per unit. For Material Y, the company holds 200 units in old inventory purchased at Rs. 10 per unit, which can be sold in the market at a discounted price of Rs. 8 per unit. The remaining required units of Material Y must be purchased at the current market price of Rs. 12 per unit.
What is the relevant cost for the additional 100 units of Material Y required?
(A) Rs. 800
(B) Rs. 1,000
(C) Rs. 1,500
(D) Rs. 1,200

May/June 2013

76. Consider the following statements regarding creating an ethical framework within an organisation:
I. Action on everyone's part becomes the action of the company, inspiring trust.
II. Promoting good and moral behaviour should be a secondary priority after profit maximization.
III. Take success with humility and defeat with grace to demonstrate fairness.
IV. The company should exhibit a sense of civic duty and respect the laws of the land.
Which of the above statement(s) is/are correct?
(A) Only I, II, and III
(B) Only I, III, and IV
(C) Only II, III, and IV
(D) I, II, III, and IV

May/June 2023

77. Delta Manufacturing uses a specialized machine to produce parts. The selling price is Rs. 10,000 per unit, and the variable cost is Rs. 8,000 per unit. Fixed costs are Rs. 15,00,000 per month. The monthly demand is 5,000 units. The machine produces parts in batches of 20 units. Each setup costs Rs. 1,000.
Using the Activity Based CVP method, what is the Break-even Point (in units per month) considering the setup costs are added to the fixed costs?
(A) 750 units
(B) 1,000 units
(C) 1,250 units
(D) 875 units

Oct/Nov 2018

78. Consider the following statements regarding the areas of decision making involving the Relevant Cost Concept:
I. Add or drop a product line decisions consider the incremental income offset by the loss of income from the discontinued product.
II. Make or buy decisions consider whether the actual cost of production is substantially lower than the price presently paid.
III. Setting price of a product relies solely on the book cost and expected margins.
IV. Accepting special orders must consider conditions such as heavy discounts or disruptions to present customers.
V. Import substitutes decisions must weigh bulk purchase requirements and exchange fluctuations.
Which of the above statement(s) is/are correct?
(A) Only I, II, III, and IV
(B) Only I, II, IV, and V
(C) Only II, III, IV, and V
(D) I, II, III, IV, and V

May/June 2005

79. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R):
Assertion (A): A brand has a moral obligation to care for children employed in its outsourced factories despite not owning those factories.
Reason (R): Contemporary businesses have a moral obligation to provide care to stakeholders connected via their supply chain, even if not directly connected to the company.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.

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(B) Only II and III
(C) Only I and III
(D) I, II, and III

Oct/Nov 2023

46. What is the most significant strategic benefit of the Activity-Based method identifying that 400 set-ups are conducted each month?
(A) It proves that classical CVP analysis produces incorrect BEP units
(B) Providing data to work with to enhance the operational functioning
(C) It mandates the immediate termination of the traditional costing framework
(D) It guarantees that total monthly fixed costs will automatically decrease

May/June 2011

47. Consider the following statements regarding the Character-Based Decision-Making Model:
I. The model was developed by the Josephson Institute of Ethics.
II. The model suggests a five-step path to better decisions.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2012

48. Match the Ethical Decision-Making questions in List I with their corresponding descriptions in List II.
List I: (Ethical Question)
P. Is it the truth?
Q. Is it a breach of trust?
R. Is it fair?
S. Is it compassionate?
List II: (Description)
1. Treating people or matter with equality without any favouritism or discrimination
2. Not misplacing a foundation of many relations, which can be a legal ground for making a contract null and void
3. A lie will always require a cover up, while facts remain stored in your memory
4. Feeling or showing sympathy and concern, such as giving extended maternity leave
(A) P-3, Q-2, R-1, S-4
(B) P-2, Q-3, R-4, S-1
(C) P-3, Q-1, R-2, S-4
(D) P-1, Q-4, R-3, S-2

May/June 2005

49. Which of the following pairs incorrectly matches the concept with its definition?
(A) Unavoidable costs - Costs incurred only if a specific business decision is made
(B) Sunk costs - Costs that are made even before the decision-making process starts
(C) Opportunity costs - Potential benefit or income given up as a result of selecting an alternative
(D) Avoidable costs - Categorised as relevant costs

Oct/Nov 2014

50. Match the relevant cost data items for Material B in List I with their respective values in List II:
List I: (Data Item)
P. Units of Material B in old inventory
Q. Discounted selling price per unit of inventory
R. Purchase price of additional units required
S. Total relevant cost of Material B
List II: (Value)
1. Rs. 17
2. 150 units
3. Rs. 2,800
4. Rs. 13
(A) P-2, Q-4, R-1, S-3
(B) P-4, Q-1, R-2, S-3
(C) P-2, Q-3, R-4, S-1
(D) P-1, Q-2, R-3, S-4

May/June 2019

51. Consider the following statements regarding outsourcing an activity or service:
I. Organizations consider outsourcing mainly because of unidentifiable costs and generalized functions.
II. Proper study of the requirements and in-house cost estimates will be required.
III. Confidentiality commitment and reliability aspects of the outsourcing agent are necessary considerations.
Which of the above statement(s) is/are correct?
(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) I, II, and III

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(D) Assertion (A) is false, but Reason (R) is true.

May/June 2023

86. Consider the following statements regarding relevant costing for materials:

I. The relevant cost for Material A with zero inventory is calculated using the market purchase price.
II. The purchase price of old inventory units of Material B has no meaning in the relevant cost calculation.
III. The current price of Material C is irrelevant to the calculation of its relevant cost.
IV. The relevant cost of Material B includes the opportunity cost of selling the old inventory at a discounted price.

Which of the above statement(s) is/are correct?
(A) Only I, II, and III
(B) Only I, II, and IV
(C) Only II, III, and IV
(D) I, II, III, and IV

Oct/Nov 2018

87. Omega Corp receives a special order requiring 100 units of Material X and 300 units of Material Y. The company has zero inventory of Material X and must purchase it at Rs. 20 per unit. For Material Y, the company holds 200 units in old inventory purchased at Rs. 10 per unit, which can be sold in the market at a discounted price of Rs. 8 per unit. The remaining required units of Material Y must be purchased at the current market price of Rs. 12 per unit.
What is the relevant cost for the 200 units of Material Y that are already in inventory?
(A) Rs. 2,000
(B) Rs. 1,600
(C) Rs. 2,400
(D) Rs. 3,000

May/June 2007

88. Consider the following constraints and criteria affecting investment decisions due to cost, volume, and price:

I. Introducing a new product cannot expect high volumes, hence costing will be higher.
II. Prices for new products must be practically high to achieve early breakeven points.
III. Carving out market share for consumer products requires huge advertisement and brand building expenses.
IV. Building large capacity needs huge investment, which delays the payback period.
V. Speciality products can be launched with high price and good margins but need huge R&D expenditure.

Which of the above statement(s) is/are correct?
(A) Only I, II, III, and IV
(B) Only I, III, IV, and V
(C) Only II, III, IV, and V
(D) I, II, III, IV, and V

Oct/Nov 2025

89. Delta Manufacturing uses a specialized machine to produce parts. The selling price is Rs. 10,000 per unit, and the variable cost is Rs. 8,000 per unit. Fixed costs are Rs. 15,00,000 per month. The monthly demand is 5,000 units. The machine produces parts in batches of 20 units. Each setup costs Rs. 1,000.
Based on the scenario, what is the contribution per unit?
(A) Rs. 1,000
(B) Rs. 2,000
(C) Rs. 8,000
(D) Rs. 10,000

May/June 2012

90. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R):
Assertion (A): The Activity Based Costing system provides transparent information on the cost ramifications of decisions.
Reason (R): ABC method allocates the overheads based solely on the volume of production rather than identifying cost drivers.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2014

91. Zenith Apparel, a global brand, sources garments from independent factories in developing nations. A prominent NGO releases a report showing that these factories force employees to work in hazardous conditions. Zenith does not own these factories but purchases 60% of

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particular activity which drives them
3. An item for which the cost measurement is required
4. Measures the quantity of resources consumed by an activity

(A) P-3, Q-2, R-4, S-1
(B) P-2, Q-3, R-1, S-4
(C) P-4, Q-1, R-2, S-3
(D) P-3, Q-4, R-2, S-1

Oct/Nov 2011

59. Consider the following statements regarding CVP analysis:
I. Volume will have a direct impact on absolute profits, which is a determining factor in calculating the breakeven point.
II. When a new product is introduced in the market, high volumes can be expected, lowering the initial costing.

Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2010

60. Match the following overhead cost items in List I with their respective amounts in List II:
List I: (Overhead Item)
P. Payroll taxes
Q. Purchasing Dept. labour
R. Equipment depreciation
S. Unemployment insurance
List II: (Amount)
1. Rs. 4,000
2. Rs. 1,000
3. Rs. 1,500
4. Rs. 750

(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-2, Q-4, R-1, S-3
(D) P-4, Q-3, R-2, S-1

May/June 2017

61. Consider the following statements regarding the methodology of Activity Based Costing:
I. The manufacturing or the service is first subdivided into discrete and quantifiable activities.
II. Cost Pool is a term used for grouping of the costs incurred on a particular activity.
III. A Resource Cost Driver measures the quantity of resources consumed by an activity.
IV. Activity cost driver rate is calculated by dividing Total cost of activity by Activity driver.
V. Overhead allocation in ABC is strictly based on the total volume of production.

Which of the above statement(s) is/are correct?
(A) Only I, II, III, and IV
(B) Only II, III, IV, and V
(C) Only I, III, IV, and V
(D) I, II, III, IV, and V

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Oct/Nov 2005

62. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R):
Assertion (A): Giving extended maternity leave to an employee whose child is born with problems is an example of the ethical quality of compassion.
Reason (R): Compassion is a feeling or showing of sympathy and concern for fellow beings, prompting decisions when rules do not cover certain situations.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2020

63. Consider the following statements regarding Activity Based Cost-Volume-Profit (CVP) analysis:
I. In traditional CVP, fixed costs are defined as costs that change in proportion to the product purchased.
II. Increasing the batch size reduces the number of set-ups required per month.
III. The fabrication of larger batches may necessitate leasing more inventory storage space.
IV. The activity-based method brings to light the number of set-ups being conducted, unlike the traditional method.

Which of the above statement(s) is/are correct?
(A) Only I, II, III, and IV
(B) Only I, III, and IV

nations. A prominent NGO releases a report showing that these factories force employees to work in hazardous conditions. Zenith does not own these factories but purchases 60% of their output.

To align with the moral obligation of contemporary businesses, which action should Zenith Apparel primarily take to address the hazardous conditions in its supply chain?

(A) Implementing a comprehensive Code of Conduct for workplace protection
(B) Initiating the immediate acquisition of independent factories to internalize costs
(C) Relocating all sourcing operations to various developing nations strictly anonymously
(D) Pursuing legal action against the NGO for breaching organizational trust with contractors

Oct/Nov 2016

98. Theta Auto requires 10,000 units of a specialized gear annually. A supplier offers to provide the gear at Rs. 25 per unit. If produced internally, the costs per unit are: Direct Materials Rs. 10, Direct Labour Rs. 8, and Overhead Costs Rs. 5. Additionally, special tools costing Rs. 30,000 are needed for internal production.

Based on the relevant cost analysis, what decision should Theta Auto make, and why?

(A) Make internally to save Rs. 10,000
(B) Buy from the supplier to save Rs. 10,000
(C) Buy from the supplier to save Rs. 30,000
(D) Make internally to save Rs. 20,000

May/June 2014

99. Theta Auto requires 10,000 units of a specialized gear annually. A supplier offers to provide the gear at Rs. 25 per unit. If produced internally, the costs per unit are: Direct Materials Rs. 10, Direct Labour Rs. 8, and Overhead Costs Rs. 5. Additionally, special tools costing Rs. 30,000 are needed for internal production.

What is the total internal variable and overhead production cost (excluding the special tools) for the 10,000 gears?

(A) Rs. 180,000
(B) Rs. 200,000
(C) Rs. 250,000
(D) Rs. 230,000

Oct/Nov 2007

100. Zenith Apparel seeks to rebuild its corporate reputation and wants to ensure transparency regarding its supply chain operations. The company wishes to demonstrate fairness and responsibility to the public and watch groups.

Which specific action regarding supplier identity management would best demonstrate Zenith's commitment to responsibility and providing advance warning for labour issues?

(A) Maintaining strict confidentiality of all supplier identities to protect sensitive trade secrets
(B) Outsourcing supplier management to a third-party broker to ensure permanent legal distance
(C) Issuing general statements on compliance with local laws without providing specific factory data
(D) Publicly listing geographical supplier data and workforce diversity metrics

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70. (A) Only I, II, III, and V
Contemporary businesses have a moral obligation to care for stakeholders across their supply chains. This includes establishing audit teams for routine inspections of manufacturers and insisting on periodic access to ensure compliance. While companies may not be legally responsible for vendor conduct, ethical standards mandate proactive oversight. However, nationalizing factories is not a standard business practice for addressing supplier violations.

71. (A) Rs. 50 per machine hour
The cost driver rate for an activity is determined by dividing the total cost of the activity pool by the total amount of the associated cost driver. For Machinery Setup, the total cost is Rs. 15,000 and the cost driver is 300 machine hours. Dividing 15,000 by 300 results in a cost driver rate of Rs. 50 per machine hour.

72. (B) Only II, III, and IV
Brands can address ethical supply chain issues by moving beyond simple customer relationships and implementing comprehensive Codes of Conduct. Furthermore, providing advance warning to watch groups about supplier identities promotes transparency and accountability. While historical actions might have involved ignoring problems, modern ethical standards require proactive measures and transparency to protect workers and maintain the brand's reputation for social responsibility.

73. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Permanent labor salaries are considered sunk costs when the workers would otherwise be idle, as these expenses are incurred regardless of whether setups are performed. Therefore, these costs are excluded from the relevant cost of machine setups. The reason provided correctly explains this logic, noting that because the salaries are unavoidable, they do not change based on the decision.

74. (C) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Opportunity cost is a relevant factor in decision-making specifically when resources are scarce and choosing one option requires sacrificing another. It represents the potential benefit lost, not a cash payment. Therefore, while the assertion about scarcity is true, the reason is false because opportunity costs are implicit and do not involve an immediate outflow of cash to secure alternatives.

75. (D) Rs. 1,200
When a special order requires more units than are currently in stock, the relevant cost for the additional units is their current market purchase price. In this scenario, 100 additional units of Material Y are needed, and the market price is Rs. 12 per unit. Consequently, the total relevant cost for these additional units is calculated as Rs. 1,200.

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76. (B) Only I, III, and IV
Creating an ethical framework involves inspiring trust through collective action and demonstrating fairness by handling both success and defeat with grace. Companies should also exhibit a sense of civic duty and respect local laws. However, moral behavior should be a primary foundation of the organization rather than a secondary priority to profit maximization, as ethical integrity is central to long-term sustainability.

77. (D) 875 units
To calculate the breakeven point using the Activity Based CVP method, add total setup costs to monthly fixed costs. Total setup costs are Rs. 2,50,000 (250 setups at Rs. 1,000 each). Adding this to Rs. 15,00,000 fixed costs gives Rs. 17,50,000. Dividing this by the Rs. 2,000 contribution per unit results in a monthly breakeven point of 875 units.

78. (B) Only I, II, IV, and V
Relevant cost concepts apply to various decision areas, such as product line changes, make or buy choices, and accepting special orders. These analyses consider incremental income, internal production costs, and potential disruptions. However, setting product prices should not rely solely on book costs; instead, it requires evaluating market factors like consumer sensitivity and competitor strength to ensure long-term profitability.

processes. Accurate analysis must account for these variances rather than assuming linear relationships, as factors like economies of scale or operational shifts can influence total cost structures.

9. (B) Opportunity cost requires the payment of cash or its equivalent
Opportunity costs represent potential income sacrificed when selecting specific alternatives, but they do not involve an actual outflow of cash or its equivalent. Unlike explicit expenses, these are implicit costs arising from resource scarcity and the necessity of making choices. Because they are not recorded in financial accounts, they must be manually considered during strategic planning and economic evaluations.

10. (C) Identify the direct cost of the products
After identifying various activities within an organization using Activity Based Costing, the subsequent step is to identify the direct costs associated with specific products. This ensures that costs easily traceable to a product are accounted for before addressing indirect overheads. By isolating direct costs first, the system provides a clearer foundation for the more complex task of allocation.

11. (D) Good quality and lower prices
When organizations evaluate import substitutes for cost reduction, they face various obstacles such as exchange rate fluctuations, bulk purchase mandates, and strict payment terms like letters of credit. However, finding substitutes that offer high quality at lower prices is viewed as a primary objective or benefit rather than a deterrent. Such positive outcomes drive the search for alternative supply sources.

12. (C) It is a measure of production, marketing, research etc.
An activity cost driver serves as a measurable factor that influences the cost of specific organizational activities, such as production, marketing, or research. It acts as the basis for assigning costs from activity pools to products or services. By understanding these drivers, managers can identify the direct relationship between the performance of an activity and the consumption of resources.

13. (A) It provides a framework to decide whether a decision is morally and ethically sound
The Character-Based Decision-Making Model serves as a robust framework for assessing whether business decisions are morally and ethically sound. Rather than focusing solely on financial returns, this model encourages the evaluation of options against established ethical standards. It provides a path to ensure that organizational choices reflect integrity, thereby building long-term trust and credibility within the broader market.

14. (C) Market reliability and reputation achieved through integrity and honesty
Trust within an organization significantly enhances market reliability and corporate reputation. By prioritizing integrity and honesty, a company builds a foundation of credibility with its stakeholders, including customers and partners. This reputation for being trustworthy often leads to stronger competitive advantages, as stakeholders are more likely to engage with and remain loyal to an entity that demonstrates ethical consistency.

15. (D) Past machinery costs
Relevant cost analysis for make or buy decisions focuses on future costs that change based on the choice made, such as direct materials, labor, and specific overheads. Past machinery costs are excluded because they are sunk costs, having already been incurred. Since these historical expenditures cannot be altered by future decisions, they provide no useful information for choosing between alternatives.

16. (A) Any product or service for which a separate cost measurement is desired
In Activity Based Costing, a cost object is defined as any specific item, such as a product, service, or customer, for which a separate measurement of cost is required. It represents the final point where costs are accumulated and analyzed. Identifying cost objects allows management to determine the profitability of different outputs by tracing back the activities and resources consumed.

17. (A) Sunk costs are considered avoidable costs because they provide no future benefit
Relevant costs are future expenditures that vary between alternatives, such as avoidable costs

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34. (B) Only II
Civility within an organizational framework involves being voluntarily courteous and polite in behavior toward others. While fairness is about equality and compassion, it does not specifically mandate decisions based on compassionate grounds when rules are absent. Instead, civility focuses on the interpersonal conduct and professional etiquette that foster a respectful working environment and promote harmonious relationships between all stakeholders.

35. (A) P-4, Q-3, R-2, S-1
Ethical frameworks comprise several elements, each with distinct characteristics. Trust is defined by integrity and honesty that improve market reliability. Respect involves being considerate and never insulting others. Responsibility focuses on displaying universality and prioritizing reputation. Care emphasizes coexisting with differing ideologies to promote oneness. Together, these elements form a cohesive culture that guides behavior and decision-making within the organization.

36. (B) Only I and III
Implementing an Activity Based Costing system starts with identifying the different activities performed within the organization. Following this, it is necessary to determine the specific activity cost drivers that cause costs to change. Identifying indirect costs as a primary base is not a correct step, as the focus is on tracing overheads through activities rather than using traditional indirect bases.

37. (A) Because of identifiable cost and specialised functions
Organizations often choose to outsource specialized functions like payroll or IT management when the costs associated with these activities are clearly identifiable. Specialized external providers can often perform these tasks more efficiently than the firm could internally. This decision allows the company to focus on its core competencies while benefiting from the expertise and potential cost savings offered by experts.

38. (A) P-3, Q-2, R-4, S-1
The seven-step path of the Character-Based Decision-Making Model follows a logical order. Determining the facts is the third step, considering consequences is the fifth, choosing a course of action is the sixth, and monitoring and modifying the decision is the final seventh step. This sequence ensures that all aspects of an ethical problem are analyzed before and after a decision.

39. (B) Only II
Sunk costs are historical expenditures that have already been incurred and cannot be changed. While they may have provided past benefits, they are entirely irrelevant when choosing between present or future alternatives. It is incorrect to describe them as wrongly incurred or without benefit; their irrelevance stems simply from the fact that they are unchangeable and do not vary between options.

40. (B) P-1, Q-2, R-3, S-4
Ethical obstacles often stem from specific rationalizations. Believing everyone else is acting unethically justifies similar behavior, while the false necessity trap ignores viable alternatives under the pretext of absolute need. Committing wrongs for someone else's benefit or retaliating against others' unethical acts also serve as traps. Recognizing these patterns is essential for maintaining integrity and avoiding common pitfalls in decision-making.

41. (A) Only I and II
Trust forms the foundation of organizational relationships, and its breach can provide legal grounds to void contracts. The Golden Rule, which advises helping others and avoiding harm, is a central tenet of ethical frameworks. Conversely, a company lacking trustworthiness cannot sustain its goodwill through marketing alone, as reputation is built on consistent ethical behavior rather than just promotional efforts.

42. (C) Help when you can and avoid harm when you can
Within the Character-Based Decision-Making Model, the Golden Rule is summarized as an ethical mandate to help others whenever possible and to avoid causing harm. This principle encourages individuals to consider the well-being of others in their decisions. By applying this rule, professionals can ensure that their actions are

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relevant cost concept ensures that the decision accounts for all potential financial impacts. Decisions should focus on minimizing relevant costs rather than automatically choosing the most expensive or cheapest option.

26. (D) Past costs irrelevant to a choice as they occurred before the decision
Sunk costs are defined as financial expenditures that occurred in the past and cannot be recovered or altered by any current or future decision. Because these costs remain the same regardless of the alternative chosen, they are considered irrelevant to the planning process. Effective decision-making requires focusing on costs that will change in the future based on specific choices.

27. (A) Business decisions focusing strictly on the projected Return on Investment
Many common phrases serve as rationalizations to bypass ethical scrutiny, such as claiming an action is necessary or that objectivity is maintained despite conflicts. However, making business decisions based strictly on projected Return on Investment is a standard financial practice rather than a rationalization trap. While ROI is a metric, it does not inherently serve to excuse unethical behavior.

28. (A) {Fixed Cost p.m. + (number of set-ups × cost per set-up)} / Contribution p.u.
To calculate the breakeven point using the Activity Based Cost-Volume-Profit method, one must include the total cost of all setups alongside standard monthly fixed costs. This sum is then divided by the contribution per unit. This approach provides a more accurate breakeven figure by accounting for the overheads generated by batch-level activities rather than just volume-based fixed expenses.

29. (C) Fairness requires an organisation to always look at things strictly from the viewpoint of its own advantage
Fairness in an organization involves treating all parties with equality and avoiding favoritism or discrimination. It requires seeing situations from multiple perspectives, including those of workers and stakeholders, rather than focusing strictly on the company's own advantage. Decisions like wage revisions should acknowledge the feelings and requirements of employees to ensure that the outcome is perceived as equitable.

30. (D) The offer may not be worth accepting despite primarily looking attractive
Accepting large special orders may appear attractive initially, but they often come with conditions like heavy discounts or extended credit periods. These factors can offset the benefits and potentially lead to disruptions for existing customers. Therefore, such orders are not always worth accepting; a thorough relevant cost analysis is necessary to determine if the order truly adds value.

31. (A) 4 - 2 - 3 - 1
The Character-Based Decision-Making Model follows a specific sequence to ensure ethical clarity. The first four steps involve stopping to think before acting, clarifying goals, determining all relevant facts, and then developing various options. This structured progression prevents impulsive actions and ensures that decision-makers have a comprehensive understanding of the situation and its moral implications before choosing a course of action.

32. (B) Setting price of a product - Focuses strictly on book cost and numerical cost
When setting the price of a product, relevant costing focuses on market dynamics, consumer sensitivity, and competitor strengths rather than strictly relying on book costs or numerical historical data. Book costs are often irrelevant because they do not reflect current market conditions. Accurate pricing strategies must consider external factors that influence demand and the long-term sustainability of the customer base.

33. (B) Full capacity engagement where no additional labor or overtime is available
Inclusion of the opportunity cost of labor in setup calculations is most appropriate when the organization is operating at full capacity. In such scenarios, using labor for setup means diverting it from production where it could have generated revenue, and no additional or overtime labor is available. This sacrifice of potential income represents a real economic cost to the company.

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ANSWERS

1. (C) Six
The Character-Based Decision-Making Model provides a structured ethical framework for professional environments. Developed by the Josephson Institute, it emphasizes six core pillars that guide individuals toward morally sound choices. These pillars facilitate consistent decision-making by prioritizing integrity and ethical standards over short-term gains, ensuring that organizational actions reflect positive character traits and long-term reputational stability for the company.

2. (C) Analysis of market factors including consumer preference and price sensitivity
Evaluating relevant costs for pricing mass-market items requires moving beyond simple book values or historical numerical data. Organizations must analyze market-specific factors such as consumer preferences and price sensitivity to determine the impact on demand. This comprehensive analysis helps prevent the permanent loss of customers by aligning the product's price with competitive market dynamics and prevailing economic conditions.

3. (C) A grouping of costs incurred on an activity which drives them
Within Activity Based Costing systems, a cost pool is a collection of overhead costs related to a specific activity that drives expenditure. This grouping allows for a more precise allocation of indirect expenses compared to traditional methods. By identifying the underlying activities that consume resources, organizations can link costs directly to the specific processes responsible for their occurrence.

4. (C) The Golden Rule states "Harm when you can and avoid help when you can"
Rationalizations often act as barriers to ethical decision-making within corporate structures. While many traps exist, defining the Golden Rule as an instruction to harm others is fundamentally incorrect and contradicts ethical logic. The actual rule encourages helpfulness and the avoidance of harm. Misrepresenting such fundamental principles serves as a significant obstacle to maintaining a healthy and moral organization.

5. (B) Low initial sales volumes combined with low entry pricing to attract customers
New product introductions often experience delayed breakeven points due to strategic market entry decisions. Initially, companies typically face low sales volumes while simultaneously adopting competitive entry pricing to attract a customer base. This combination of limited revenue and high initial promotional costs means that recovering the total investment takes longer than in established markets where volumes and prices are stable.

6. (B) Omnipotence
An ethical organizational framework is built on fundamental qualities like trust, respect, and responsibility. These traits foster a positive culture and reliable reputation. However, omnipotence is not a component of such frameworks as it implies unlimited power or arrogance, which often conflicts with the humility and accountability required for ethical conduct. Organizations instead focus on cooperative and fair principles.

7. (B) The benefit foregone from the next best alternative not selected
Opportunity cost is a vital concept in relevant cost analysis, representing the potential benefit lost when one alternative is chosen over another. It focuses on the value of the next best option that was sacrificed during the decision-making process. Since resources are often scarce, recognizing these foregone earnings or benefits is essential for making economically sound and efficient choices.

8. (B) Variable cost generally varies with volume, but the variance will depend on the product mix and processes adopted
Profit analysis requires a detailed understanding of how different cost components behave as volumes change. While fixed costs remain stable in total, variable costs fluctuate based on production levels, product mix, and adopted

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compassionate and contribute positively to the organizational and social environment.

43. (B) Meeting commitments in a difficult situation - Trust
Trust in a business environment is demonstrated by consistently meeting commitments, even when faced with difficult or challenging situations. This reliability builds a strong reputation and fosters dependable relationships with stakeholders. While fairness and compassion are also vital, the specific act of keeping promises and fulfilling obligations is the primary indicator of trustworthiness and integrity within an ethical framework.

44. (A) P-1, Q-4, R-2, S-3
Relevant costs are those future expenses that will be impacted by a specific decision, whereas irrelevant costs remain unaffected. Avoidable costs are those only incurred if a particular path is chosen, making them relevant. Conversely, unavoidable costs must be paid regardless of the decision's outcome. Distinguishing between these categories is fundamental for accurate financial planning and strategic resource allocation.

45. (A) Only I and II
Investment decisions are heavily influenced by the relationship between cost, volume, and price. For instance, building large-scale capacity requires significant capital, which can delay the payback period. Additionally, launching a specialty product with high margins often necessitates substantial research and development spending. Marketing expenses for consumer products also impact profitability, making it incorrect to suggest they have no effect.

46. (B) Providing data to work with to enhance the operational functioning
Identifying the specific number of machine setups conducted each month through Activity Based Costing provides valuable data for operational improvement. This information allows managers to see the actual frequency of batch-level activities and their associated costs. By understanding these operational details, the organization can work toward enhancing functioning, optimizing batch sizes, and improving overall cost-efficiency in its manufacturing processes.

47. (A) Only I
The Josephson Institute of Ethics developed the Character-Based Decision-Making Model to provide a structured approach to ethical dilemmas. While the model is highly regarded for its clarity, it actually outlines a seven-step path rather than a five-step one. Correctly identifying the origin of the model is important for understanding the theoretical and practical foundations of this widely used framework.

48. (A) P-3, Q-2, R-1, S-4
Ethical questions serve as tools for self-evaluation. Asking if something is the truth ensures facts are prioritized over lies. Questioning if trust is breached protects relationship foundations. Assessing fairness ensures equal treatment without favoritism. Finally, considering compassion focuses on sympathy and concern, such as granting leave for personal crises. These questions collectively help individuals maintain high moral standards in professional conduct.

49. (A) Unavoidable costs - Costs incurred only if a specific business decision is made
Unavoidable costs are expenditures that must be incurred regardless of which decision is made, meaning they do not change between alternatives. Describing them as costs incurred only if a specific decision is made is incorrect, as that definition applies to avoidable or incremental costs. Understanding this distinction is crucial for identifying which costs are truly relevant during the decision-making process.

50. (A) P-2, Q-4, R-1, S-3
Calculating the relevant cost for Material B involves multiple steps. The old inventory consists of 150 units, and its relevant value is the discounted selling price of Rs. 13 per unit. Additional units needed are purchased at the market price of Rs. 17. Combining the opportunity cost of old stock and the cost of new purchases results in a total relevant cost.

51. (B) Only II and III
Decisions to outsource services require a detailed study of in-house cost estimates and specific organizational requirements. Furthermore, companies must carefully evaluate the reliability and confidentiality commitments of potential outsourcing partners. It is incorrect

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which can be eliminated by choosing a specific path. In contrast, sunk costs are historical expenditures that cannot be recovered or changed by any future action. Consequently, it is incorrect to classify sunk costs as avoidable, as they have already been incurred and remain completely unchangeable.

18. (A) Costs that do not change in proportion to the amount of product or service being purchased
Within the framework of traditional cost-volume-profit analysis, fixed costs are characterized as those expenditures that remain constant in total regardless of changes in the level of activity or volume. They do not fluctuate based on the quantity of products manufactured or services provided. Understanding this stability is essential for determining breakeven points and planning for various production capacities.

19. (D) Lower setup costs allowing for greater flexibility in production batches
Reducing the cost of machine setups significantly enhances production efficiency by providing greater flexibility in handling different batch sizes. When setup expenses are minimized, organizations can afford to alter production more frequently without incurring heavy financial penalties. This agility allows the firm to respond more effectively to changing customer demands and optimize the utilization of existing manufacturing capacity and resources.

20. (A) When the permanent labour is otherwise idle and the salaries given to them have to be incurred even otherwise
When permanent laborers are used for machine setups during idle periods, their salaries are considered sunk costs in relevant cost analysis. Because the company is already committed to paying these wages regardless of the specific task performed, the cost does not vary between decision alternatives. Therefore, these expenses should be excluded when calculating the incremental cost of a setup.

21. (C) Eliminate all fixed costs to compute variable capacity
The Activity Based Costing system involves several critical stages, including identifying projects, spreading support services, and computing total costs. However, eliminating all fixed costs to compute variable capacity is not a recognized step in the methodology. Instead, ABC focuses on more accurately assigning overheads based on activity consumption rather than simply removing categories of costs from the calculation.

22. (B) Josephson Institute of Ethics
The Josephson Institute of Ethics is the organization responsible for developing the Character-Based Decision-Making Model. This institution focuses on promoting ethical conduct across various sectors of society. Their model provides a clear, multi-step path to help professionals and individuals make choices that align with core values, ensuring that ethics remains a central consideration in both personal and organizational life.

23. (D) It runs on the philosophy that it is better to be approximately right than precisely wrong
Activity Based Costing differs from traditional allocation by prioritizing logical accuracy over strict mathematical precision. The philosophy suggests that it is better to be approximately right by tracing costs through activities than to be precisely wrong using arbitrary volume-based allocations. This approach provides a more realistic view of product profitability, even if the calculations involve more complex estimations.

24. (D) The traditional approach allocates overheads calculated on the basis of cost drivers of the activities
Activity Based Costing shifts the focus toward activities as the primary cost centers, using measurable drivers like sales personnel or project hours. Traditional costing approaches, however, do not use these activity drivers; they typically allocate overheads using simplistic measures like total production volume or direct labor hours. Misidentifying the traditional method as using specific activity drivers is fundamentally incorrect.

25. (B) Freeing up space that can be rented out to generate additional cash is a factor in relevant cost analysis
A critical factor in make or buy analysis is the consideration of opportunity costs, such as the potential to generate additional cash by renting out premises freed up through outsourcing. This

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determining the total overhead burden within a given period.

61. (A) Only I, II, III, and IV
The methodology of Activity Based Costing involves subdividing services into quantifiable activities, using cost pools for grouping, and applying resource cost drivers to measure consumption. Furthermore, the activity cost driver rate is calculated by dividing total activity costs by the activity driver. Crucially, ABC avoids simple volume-based allocation, which is a hallmark of traditional systems rather than the ABC approach.

62. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Compassion in an organizational context involves showing sympathy and concern, leading to decisions that support individuals during crises even if formal rules do not provide coverage. Granting extended maternity leave for a child with health problems perfectly exemplifies this quality. The reason provided correctly explains why this act is considered compassionate, linking the feeling of sympathy directly to the decision.

63. (C) Only II, III, and IV
Activity Based CVP analysis offers deeper insights than traditional methods by highlighting the number of setups performed. It acknowledges that increasing batch sizes can reduce the total number of setups, although larger batches might require additional inventory storage space. These factors illustrate that many costs are driven by batch-level activities rather than just total production volume, improving the accuracy of profit planning.

64. (C) Rs. 2,000
To calculate the relevant cost for Material X, one must look at the current market price because the company has zero inventory. Since 100 units are needed and each costs Rs. 20 to purchase, the total relevant cost is Rs. 2,000. Because this expenditure will only occur if the order is accepted, it represents a future, avoidable cash outflow.

65. (D) Assertion (A) is false, but Reason (R) is true.
It is incorrect to assume that higher sales volumes lead to a proportionate decrease in marketing costs. In reality, increasing volume often requires a disproportionate increase in marketing spend for brand building and market penetration. Therefore, while sales may grow, the associated costs can rise at a different rate, potentially impacting the overall profitability per unit and the company's margins.

66. (A) Rs. 2,800
The total relevant cost for Material Y includes the opportunity cost of 200 units in inventory and the purchase price of 100 additional units. The inventory units are valued at their resale price of Rs. 8 each, totaling Rs. 1,600. The remaining 100 units cost Rs. 12 each, totaling Rs. 1,200. Combining these figures gives a total relevant cost of Rs. 2,800.

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67. (B) Only I, II, and IV
Make or buy decisions involve analyzing associated costs like materials, labor, and overheads. Additionally, the potential to generate income by renting out space freed through outsourcing is a relevant factor. Internal production costs, such as special tools, must also be considered. However, the goal is to find the most cost-effective solution rather than automatically choosing the highest-cost alternative for quality.

68. (D) Assertion (A) is false, but Reason (R) is true.
A large special order is not guaranteed to be profitable. Such orders often come with demanding conditions, such as deep discounts or extended payment terms, which can significantly reduce the potential gain. While the order may appear attractive at first glance, these offsets can make it less valuable than it seems, requiring a careful relevant cost analysis before final acceptance.

69. (A) 250
To find the number of setups required per month, divide the total monthly demand by the batch size. In this case, the demand is 5,000 units and the machine produces in batches of 20 units. Dividing 5,000 by 20 results in 250 separate setups needed to meet the monthly production target. This figure is essential for calculating the total setup-related costs.

to assume outsourcing is chosen because costs are unidentifiable; rather, it is pursued when identified costs and specialized expertise suggest that external providers offer better value.

52. (A) 3 - 1 - 4 - 2
The Activity Based Costing methodology follows a precise order. It begins with identifying the direct costs of products, followed by identifying the overheads related to specific activities. Next, managers determine the activity cost drivers that link expenses to those activities. Finally, the total cost of products or objects is computed by aggregating these direct and accurately allocated indirect costs.

53. (A) P-4, Q-3, R-2, S-1
Different decision areas use specific relevant cost considerations. Product line decisions focus on incremental income and recovery from disbanded plants. Make or buy decisions look at internal production versus external prices, including potential rental income. Price setting requires analyzing market preferences and sensitivity. Accepting special orders involves evaluating conditions like discounts or credit terms. These tailored approaches ensure optimal outcomes.

54. (A) Only I
Activity Based Costing is characterized by identifying overhead costs with specific cost-driving activities. This contrasts with traditional approaches, which do not focus on activity cost drivers but instead use broader, volume-based allocation methods. By linking costs to the activities that cause them, ABC provides a more accurate and transparent reflection of how resources are consumed across different products or services.

55. (A) Resource Cost Driver – Consumption measure
In the hierarchy of Activity Based Costing, a resource cost driver is a measure of the quantity of resources consumed by a specific activity. This distinguishes it from an activity cost driver, which links the activity to the final cost object. Correctly categorizing these drivers is essential for building an accurate model that reflects the actual flow of costs through the organization.

56. (A) Exhibiting a sense of civic duty and environmental protection
Citizenship in a professional context extends beyond simple politeness; it involves a sense of civic duty and the protection of the environment. Such an organization respects the laws of the land and acts as a responsible member of society. This quality contributes to an ethical framework by ensuring the company considers its impact on the broader community and the natural world.

57. (B) Only II and III
Opportunity costs arise only when scarce resources are used, representing the value of the next best alternative given up. They do not involve actual cash payments, making the claim that they require cash equivalent incorrect. Instead, these are implicit costs that must be factored into decision-making to ensure that the chosen alternative provides the highest possible benefit relative to sacrifices.

58. (A) P-3, Q-2, R-4, S-1
Activity Based Costing uses specific terminology to trace costs. A cost object is an item needing measurement, while a cost pool groups costs by activity. A resource cost driver measures the resources consumed by an activity, and an activity cost driver provides a measure for production or marketing tasks. These definitions ensure that costs are assigned logically based on actual usage.

59. (A) Only I
Standard cost-volume-profit analysis assumes that volume has a direct impact on absolute profits and is a key factor in calculating the breakeven point. However, it is incorrect to expect high volumes immediately for new products; often, initial volumes are low and pricing is competitive, delaying profitability. Recognizing these dynamics is essential for realistic financial forecasting and successful market entry strategies.

60. (A) P-2, Q-1, R-4, S-3
Overhead cost items in an organization are assigned specific monetary values. For instance, Payroll taxes are Rs. 1,000, while Purchasing Department labor costs Rs. 4,000. Equipment depreciation is valued at Rs. 750, and Unemployment insurance amounts to Rs. 1,500. Correctly identifying and allocating these individual expenses is a necessary part of

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79. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Modern ethical standards suggest that brands have a moral obligation to care for all stakeholders in their supply chain, including children in outsourced factories they do not own. This obligation arises from the connection through the supply chain. The reason provided correctly supports the assertion, explaining that contemporary business ethics mandate a broader scope of responsibility beyond direct ownership.

80. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
A company should outsource a component if the supplier's price is lower than internal relevant production costs. This analysis must include direct materials, labor, overheads, and the opportunity to generate income from freed-up facilities. The reason provided correctly explains the components of relevant cost analysis, supporting the decision to choose the alternative that minimizes overall costs and maximizes benefits.

81. (C) Rs. 20 per labour hour
In an ABC system, the cost driver rate for Payroll Processing is found by dividing the total pool cost by the total labor hours. With a total cost of Rs. 10,000 and 500 labor hours, the rate is Rs. 20 per labor hour. This rate allows the company to assign payroll-related overheads to products based on their actual labor consumption.

82. (A) Only I, II, III, and IV
Several common traps serve as rationalizations for unethical behavior, such as claiming necessity, arguing it is part of the job, or suggesting no one is hurt. However, the idea that ends justify the absolute truth is not a recognized rationalization trap in this context. Identifying these pitfalls is essential for decision-makers to maintain integrity and resist compromising ethical standards.

83. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Sunk costs are historical expenses already incurred and unchangeable by future choices, making them irrelevant for decision-making. The reason provided accurately supports the assertion by explaining that these costs remain constant regardless of which alternative is selected. By ignoring sunk costs, managers can focus exclusively on future cash flows and costs that will vary based on their current decisions.

84. (C) Rs. 2,50,000
Total monthly setup costs are determined by multiplying the number of required setups by the cost per individual setup. Given a monthly demand requiring 250 setups and a cost of Rs. 1,000 for each, the total expense amounts to Rs. 2,50,000. This calculation is a key component of Activity Based CVP analysis, providing a clearer view of total fixed expenditures.

85. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Fairness involves treating all individuals and matters with equality and without favoritism. This principle helps protect a company from future difficulties and keeps it grounded during challenging periods. The reason provided correctly explains how practicing fairness serves as a stabilizing force for the organization, supporting the assertion that equitable treatment is a fundamental aspect of an ethical business framework.

86. (B) Only I, II, and IV
Relevant costing for materials focuses on current market prices and opportunity costs rather than historical purchase prices. For instance, the relevant cost for items with zero inventory is the replacement market price, while for existing stock, it includes the opportunity cost of selling those items. Historical book values are irrelevant because they cannot be changed by the current business decision.

87. (B) Rs. 1,600
For materials already in inventory that can be sold, the relevant cost is the opportunity cost, which is the income foregone by using them in the order. In this scenario, 200 units of Material Y could have been sold for Rs. 8 per unit. Therefore, the relevant cost for using these inventory units in the special order is Rs. 1,600.

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Oct/Nov 2024

33. What is the most significant shortcoming of the liquidation value approach when assessing a functioning business entity?
(A) It relies too heavily on subjective discount rates for cash flows.
(B) It ignores organizational capital and values the firm as separate assets.
(C) It requires highly complex regression models to interpret metrics.
(D) It inherently overvalues secondary market prices of tangible assets.

May/June 2015

34. Consider the following statements regarding Cost of Capital:
I. It is computed in post-tax terms because free cash flow is expressed and used in post-tax terms.
II. It is based on historical book value weights rather than market value weights to ensure alignment with the balance sheet.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2007

35. Match the DCF Components with their formulations:
List I: (DCF Component)
P. NOPLAT
Q. Free Cash Flow (FCF)
R. Return on Invested Capital (ROIC)
S. Net Investment
List II: (Formulation)
1. NOPLAT / Operating Invested Capital
2. EBIT - Taxes on EBIT
3. NOPLAT - Net investment
4. Gross investment - Depreciation
(A) P-2, Q-3, R-1, S-4
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2022

36. Consider the following statements regarding forecasting performance in DCF:
I. A company's worth includes the present value of predicted future cash flows.
II. Growth rate is the most important input for high-growth companies.
III. High-growth companies in early stages never experience negative operating margins.
Which combination of statements is correct?
(A) I and II
(B) I and III
(C) II and III
(D) I, II, and III

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Oct/Nov 2017

37. The Cost Approach (Asset-Based Approach) is particularly helpful and most appropriate for determining the worth of which type of businesses?
(A) Asset-intensive businesses, holding corporations, and troubled entities.
(B) High-growth technology startups with immense intellectual property.
(C) Service-oriented companies with significant organizational capital.
(D) Companies whose securities are actively traded on public exchanges.

May/June 2006

38. Match the stages of analysing comparable companies with their respective activities:
List I: (Stage)
P. Stage 1
Q. Stage 2
R. Stage 3
S. Last Stage
List II: (Activity)
1. Analyse the company's competitive and financial standing.
2. Determine where the subject company falls in respect to comparables and apply multiples.
3. Analyse the economy (GDP, interest rates, etc.).
4. Analyze the sector the target firm operates in (industry life cycle, regulatory environment).
(A) P-1, Q-4, R-2, S-3
(B) P-3, Q-1, R-4, S-2
(C) P-4, Q-2, R-3, S-1
(D) P-3, Q-4, R-1, S-2

Oct/Nov 2010

39. Consider the following statements regarding the Stock and Debt approach:
I. If the stock market is efficient, prices

supply chain. Such measures are more effective than simply relocating or pursuing legal action, as they directly improve worker safety.

98. (B) Buy from the supplier to save Rs. 10,000
Relevant cost analysis compares the total cost of making internally against the cost of buying from a supplier. Manufacturing internally costs Rs. 2,60,000, while purchasing from the supplier costs Rs. 2,50,000. Choosing to buy from the supplier saves the company Rs. 10,000. Therefore, based on financial considerations, purchasing the gears externally is the more efficient and cost-effective decision.

99. (D) Rs. 230,000
The total internal production cost (excluding special tools) is the sum of direct materials, labor, and overhead per unit, multiplied by the quantity. With unit costs of Rs. 10, Rs. 8, and Rs. 5 respectively, the total cost per gear is Rs. 23. For 10,000 gears, this results in a total variable and overhead manufacturing cost of Rs. 2,30,000.

100. (D) Publicly listing geographical supplier data and workforce diversity metrics
To demonstrate fairness and responsibility, Zenith Apparel should publicly list geographical supplier data and workforce metrics. This level of transparency allows stakeholders and watch groups to monitor conditions and provides advance warning for potential issues. By sharing specific factory information rather than general statements, the company shows a genuine commitment to ethical accountability and improving labor standards within its supply chain.

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88. (B) Only I, III, IV, and V
Investment decisions are constrained by several factors, including the need for significant capital to build large capacity and the high research costs for specialty products. Furthermore, new products often face low initial volumes and require heavy advertising to gain market share. However, pricing for new products must be practical rather than artificially high to ensure successful market entry and customer acceptance.

89. (B) Rs. 2,000
Contribution per unit is calculated by subtracting the variable cost from the selling price. In the provided scenario, the specialized part has a selling price of Rs. 10,000 and a variable cost of Rs. 8,000. Subtracting the variable cost from the selling price results in a contribution of Rs. 2,000 per unit, which is used to cover fixed costs.

90. (C) Assertion (A) is true, but Reason (R) is false.
Activity Based Costing improves transparency by providing clear information on the cost implications of various decisions. However, it does not allocate overheads based solely on volume; instead, it uses specific cost drivers to link expenses to activities and products. Therefore, while the assertion about transparency is true, the reason is false as it misrepresents the fundamental methodology of ABC.

91. (B) If It's Legal and Permissible, It's Proper
Zenith Apparel's management uses the legal status of independent factories to claim they are not responsible for hazardous conditions. This logic follows the rationalization trap that if an action is legal and permissible, it must be proper. By focusing strictly on legal boundaries, they ignore the moral obligations that contemporary businesses have toward stakeholders throughout their entire global supply chain.

92. (C) Rs. 2,50,000
To determine the total purchase cost, the number of required units is multiplied by the supplier's price. Theta Auto needs 10,000 specialized gears, and the external supplier offers them at Rs. 25 per unit. Consequently, the total cost of buying the gears from the supplier is Rs. 2,50,000. This figure is then compared against internal manufacturing costs for decision-making.

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93. (D) Rs. 1,000
Allocated costs in an ABC system are determined by multiplying the product's consumption of a driver by the activity's cost driver rate. Product A uses 50 labor hours, and the Payroll Processing rate is Rs. 20 per hour. Multiplying these values results in a total allocated payroll cost of Rs. 1,000. This ensures costs are assigned based on actual resource usage.

94. (C) An audit team inspecting during the pre-sourcing and follow-up stages of the manufacturing process
To ensure ethical compliance in sourcing, companies should establish an audit team responsible for inspecting manufacturers during both the pre-sourcing and follow-up stages. This mechanism provides routine oversight and verifies that safety standards are being met. Unlike legal shielding or public relations efforts, direct auditing addresses the actual conditions in the factories, demonstrating a commitment to responsibility and worker protection.

95. (A) Rs. 260,000
The total cost of manufacturing internally includes both the variable and fixed costs related specifically to the production. For 10,000 gears, variable and overhead costs total Rs. 2,30,000 (Rs. 23 per unit). Adding the cost of special tools, which is Rs. 30,000, results in a total internal production cost of Rs. 2,60,000. This comprehensive figure is used for comparison.

96. (B) Rs. 500
To calculate the Quality Inspection cost for Product B, multiply its number of inspection batches by the cost per batch. The total inspection cost is Rs. 5,000 for 100 batches, giving a rate of Rs. 50 per batch. Since Product B requires 10 batches, the allocated cost is Rs. 500. This method accurately reflects the product's use of inspection resources.

97. (A) Implementing a comprehensive Code of Conduct for workplace protection
To address hazardous conditions ethically, Zenith Apparel should implement a comprehensive Code of Conduct focused on workplace protection for its suppliers. This proactive step sets clear expectations for safety and human rights, fulfilling the brand's moral obligation to its

May/June 2019

8. Which of the following statements correctly describes the Market approach to corporate valuation?

(A) It determines value by combining the fair market value of the company's net assets.

(B) It takes into account the price of a recent transaction or the price of comparable assets.

(C) It involves estimating the cost required to rebuild or replace the business.

(D) It solely relies on the direct tally of investor claims from the balance sheet.

Oct/Nov 2025

9. Which of the following statements about selecting a valuation methodology is incorrect?

(A) The appropriate method depends on the nature of the asset and the purpose of the valuation assignment.

(B) A valuer must always use multiple approaches and average their results to find the final value.

(C) When factual inputs for a single method are insufficient, multiple methods may be considered.

(D) Reconciling different values into a single conclusion without averaging them should be described by the valuer.

May/June 2010

10. In the direct comparison approach, the Price-Earnings-Growth (PEG) ratio is calculated by:

(A) Multiplying the price-to-earnings ratio by the predicted growth rate.

(B) Dividing the earnings per share by the anticipated capital growth.

(C) Dividing the price-to-earnings ratio by the predicted growth rate.

(D) Adding the historical growth rate to the price-to-earnings multiple.

Oct/Nov 2014

11. To maintain coherence when calculating Return on Invested Capital (ROIC), certain rules must be followed. Which of the following is NOT a correct rule for this computation?

(A) Calculation must always use the same numerator and denominator definitions.

(B) When an asset is in invested capital, associated income is in NOPLAT.

(C) Capital measurement occurs as an average of starting and ending values.

(D) Return on assets is preferred over ROIC due to internal consistency rules.

May/June 2023

12. How is "Net Investment" defined in the context of calculating Free Cash Flow?

(A) The net difference between current assets and current liabilities.

(B) The sum of cumulative expenditure on current and non-current assets.

(C) The difference between gross investment and the amount of depreciation.

(D) The total expenditure incurred on replacing older technological assets.

Oct/Nov 2008

13. Regarding the stock and debt approach, which statement accurately reflects the implications of the efficient market hypothesis?

(A) Value securities using the market price on the lien date without averaging.

(B) Analysts must always average stock prices to eliminate market volatility.

(C) The approach is useless because efficient markets prevent accurate value.

(D) Debt instruments must use book value while equity uses the market value.

May/June 2016

14. What is a primary flaw associated with utilizing the Direct Comparison method for corporate valuation?

(A) It is generally impossible to locate financial data for peer group firms.

(B) It heavily relies on complex mathematical regressions that analysts avoid.

(C) Multiples may lead to overvaluation when comparing unlisted and listed firms.

(D) It completely ignores the historical revenue growth of the subject company.

Oct/Nov 2020

15. When modifying book values to factor replacement costs, which of the following is NOT typically classified as a "Non-operating Asset"?

(A) Financial securities

(B) Surplus land

(C) Disused structures

(D) Work-in-process inventory

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depreciation to disconnect from actual value.
II. Technological advancements render essential assets obsolete before depreciation takes place.
III. Organizational capital is strictly recorded on the balance sheet, elevating book values unfairly.

Which combination of statements is correct?
(A) I and II
(B) I and III
(C) II and III
(D) I, II, and III

May/June 2021

46. Under what specific circumstances does it make the most sense to utilize the unadjusted book value technique or the liquidation value approach?
(A) When valuing multinational conglomerates with global supply chains.
(B) For regulated industries or firms worth more in the grave than living.
(C) When assessing firms primarily deriving value from intangible assets.
(D) When conducting a discounted cash flow analysis for a strategic buy.

Oct/Nov 2009

47. Consider the following statements regarding NOPLAT calculation:
I. During the process of computing EBIT, interest expenses and interest income are not taken into account.
II. The tax shield on interest expense is deducted from the income tax provision to arrive at Total Taxes on EBIT.

Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2023

48. Match the following Types of Value with their descriptions:
List I: (Value Type)
P. Book Value
Q. Market Value
R. Enterprise Value
S. Fair Market Value
List II: (Description)
1. Approximates the worth of an entity's running assets, including its debts and commitments.
2. Derived through market analysis; commonly shares multiplied by share price.
3. Price between a willing buyer and willing seller under no compulsion.
4. Established by the books or financials of the company.
(A) P-1, Q-4, R-2, S-3
(B) P-4, Q-2, R-1, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-3, R-1, S-2

Oct/Nov 2018

49. Which of the following pairs incorrectly matches the valuation terminology with its premise?
(A) Book Value — Value derived purely from discounting predicted cash flows using the marginal cost of capital.
(B) Continuing Value — Current value of anticipated cash flows from maintaining the investment until the end of its life.
(C) Liquidation Value — Amount of net cash flow the company would obtain if it ended the project right now.
(D) Divestiture Value — Sum that the investor with the highest offer will pay for the asset.

May/June 2007

50. Match the items for predicting future growth with their definitions:
List I: (Growth Category)
P. Assets in situ
Q. Growth assets
R. High-growth companies
S. Strategic vision
List II: (Definition)
1. Assets for future expansion to be acquired in the foreseeable future.
2. Must be developed to translate into financial forecasts.
3. Assets already in existence generating current cash flows.
4. Often have low revenues and negative operating margins in early stages.
(A) P-1, Q-4, R-2, S-3
(B) P-4, Q-2, R-3, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-3, R-1, S-4

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featured and quantified on the balance sheet.

Oct/Nov 2006

25. Identify the correct statement regarding the Income approach to valuation.
(A) The approach determines the value by deducting replacement costs from gross market value.
(B) It utilizes the net operating income (NOI) divided by the rate of capitalization.
(C) It is synonymous with the asset-based approach for troubled entities.
(D) It computes the present value based on past historical earnings exclusively without future projections.

May/June 2024

26. Which of the following defines "Cost of Capital" from the perspective of an investor?
(A) The total interest expense incurred on borrowed funds during a fiscal year.
(B) The weighted average of historical costs of all assets acquired by a firm.
(C) The gross cash flow generated minus the gross investment during the period.
(D) The rate of return that must be offered to investors for their capital.

Oct/Nov 2019

27. All of the following are principal valuation approaches recognized internationally, EXCEPT:
(A) Stock and Debt approach
(B) Market approach
(C) Income approach
(D) Cost approach

May/June 2013

28. In the Discounted Cash Flow (DCF) methodology, what is the typical duration for the explicit forecast period before the company is presumed to reach a "stable level"?
(A) 5 to 15 years
(B) 1 to 3 years
(C) 3 to 5 years
(D) 15 to 25 years

Oct/Nov 2015

29. Which of the following statements regarding Enterprise Value is incorrect?
(A) It represents value placed on a company including debts and commitments.
(B) It comes close to approximating the worth of an entity's running assets.
(C) Cash and cash equivalents are added to equity and debt to find the value.
(D) The formula includes non-controlling interests and preferred securities.

May/June 2008

30. Why is the Weighted Average Cost of Capital (WACC) considered a marginal concept?
(A) It applies only to companies operating at the minimum margin of profit.
(B) It represents the historical cost of capital acquired at firm inception.
(C) It fluctuates marginally based on daily stock market price movements.
(D) It refers to the cost of obtaining extra money through various sources.

Oct/Nov 2012

31. Arrange the following steps involved in valuation using the DCF Approach in the correct chronological order:
I. Calculate Free Cash Flow.
II. Find the terminal value after the explicit forecast period and find its PV.
III. Analyse historical performance to calculate Operating Invested Capital, NOPLAT, etc.
IV. Calculate the weighted average cost of capital (WACC).
V. Forecast future cash flows for an explicit forecast period and calculate their PV.
(A) III, I, IV, V, II
(B) I, III, IV, V, II
(C) III, IV, I, V, II
(D) IV, III, I, II, V

May/June 2018

32. Which of the following pairs incorrectly matches the formula with its corporate valuation concept?
(A) ROIC — NOPLAT divided by Operating Invested Capital.
(B) NOPLAT — EBIT + Interest expense - Tax on non-operating income.
(C) Enterprise Value — Equity value + short-term debts + long-term debts - Cash and cash equivalents (plus other obligations).
(D) WACC — Weighted average of the after-tax cost of debt, preference shares, and equity shares.

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May/June 2005

16. What does the term "Enterprise Value" signify in corporate valuation?
(A) The valuation placed on a complete company, including its debts and commitments.
(B) The total intrinsic worth of a firm after deducting its short-term liabilities.
(C) The value of a company's equity shares derived solely from stock market data.
(D) The net value of tangible assets after deducting all accumulated depreciation.

Oct/Nov 2018

17. In the context of the Direct Comparison Approach, which statement is incorrect?
(A) When converting the selling price to a correct unit, time adjustments should be performed last.
(B) The property must be sold at its highest possible price, factoring in legal permissibility and financial viability.
(C) It is based on the Principle of Substitution.
(D) Comparables should ideally have a proven track record of sales in the past and comparable amenities.

May/June 2012

18. In the calculation of Net Operating Profit Less Adjusted Taxes (NOPLAT), which of the following formulas is accurate?
(A) NOPLAT = EBIT - Taxes on EBIT
(B) NOPLAT = EBIT + Taxes on EBIT
(C) NOPLAT = Gross Profit - Operating Expenses
(D) NOPLAT = Net Income + Interest Expense

Oct/Nov 2009

19. Identify the correct statement regarding Operating Invested Capital.
(A) It includes all excess cash balances invested in fixed deposits with banks.
(B) It is calculated by adding non-interest bearing liabilities to working capital.
(C) It eliminates the need to account for tangible fixed assets in valuation.
(D) It is capital used to acquire operating assets plus operating working capital.

May/June 2025

20. When deciding whether to continue, liquidate, or sell an existing project generating returns lower than its cost of capital, the firm should:
(A) Keep the project if continuing value is the highest possible outcome.
(B) Liquidate the project immediately to minimize further operating losses.
(C) Sell the project at divestiture value regardless of continuing value.
(D) Use the adjusted book value approach to mask operational deficiencies.

Oct/Nov 2013

21. Which of the following is NOT a non-cash flow method for estimating the continuing value of a firm?
(A) Replacement Cost Method
(B) Price-PBIT ratio method
(C) Value driver method
(D) Market-to-book ratio method

May/June 2017

22. The concept of "fair market value" accepted worldwide was propounded by which of the following entities?
(A) International Assets Valuation Standards Committee
(B) United States Internal Revenue Service (IRS)
(C) International Accounting Standards Board
(D) Global Valuation Professional Association

Oct/Nov 2022

23. The liquidation value approach is considered to have a significant shortcoming because it:
(A) It overestimates the impact of physical depreciation on fixed tangible assets.
(B) It assumes that active secondary markets exist for all non-operating assets.
(C) It requires averaging various stock prices over an extended legal lien period.
(D) It values the company as separate assets and ignores organizational capital.

May/June 2011

24. Regarding the Adjusted Book Value Approach, which statement is incorrect?
(A) The book value of an asset might become disconnected from its actual value due to inflation.
(B) Constant technological advancements can render essential assets obsolete before fully depreciating.
(C) Current replacement costs can be used in place of an asset's net book value.
(D) Organizational capital is prominently

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of securities reflect all readily available public information, removing the need for averaging recent stock prices.

II. In an efficient market, the firm's securities must be valued using the market price obtainable on the lien date.

Which of the above statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2020

40. Match the Valuation Approaches with their core methodologies:

List I: (Valuation Approach)

P. Market Approach
Q. Income Approach
R. Cost Approach
S. Stock and Debt Approach

List II: (Core Methodology)

1. Extracts value by combining the FMV of the company's net assets.
2. Determines value based on the price of recent transactions or comparable assets.
3. Adds the current market value of all outstanding securities.
4. Determines present value of expected future earnings or cash flows.

(A) P-2, Q-3, R-1, S-4
(B) P-3, Q-1, R-4, S-2
(C) P-4, Q-2, R-3, S-1
(D) P-2, Q-4, R-1, S-3

Oct/Nov 2021

41. Consider the following statements regarding Free Cash Flow (FCF) calculation:

I. FCF is the post-tax cash flow created from operations.
II. It is calculated before the firm accounts for investments in fixed assets.
III. To calculate FCF available to both equity and debt investors, non-operative cash flow is added.

Which combination of statements is correct?

(A) I and II
(B) I and III
(C) II and III
(D) I, II, and III

May/June 2009

42. In the Direct Comparison Approach, when analysts attempt to expressly compensate for the disparity that a subject company has a higher expected growth rate than the industry average, which is the most appropriate statistical tool or metric used?

(A) Adjusted Book Value multiplier
(B) Gross Cash Flow divisor
(C) Price-earnings-growth (PEG) ratio
(D) Asset replacement quotient

Oct/Nov 2011

43. Which of the following pairs correctly matches the Direct Comparison step with its corresponding action?

(A) First Step — Dividing expected growth rates by net operating income.
(B) Second Step — Finding out data in respect of comparable past sales.
(C) Final Stage — Figuring out the highest and best use of the property.
(D) First Step — Modifying multiples using price-earnings-growth (PEG) ratios.

May/June 2016

44. Match the Cost of Capital elements with their specific traits:

List I: (Cost of Capital Element)

P. Cost of Debt
Q. Cost of Equity
R. Cost of Capital (overall)
S. Weighted Average Cost of Capital

List II: (Specific Trait)

1. Represents the risks that various sources of money are willing to take on.
2. Proportional to the interest that is accrued and must be paid back.
3. Return investors anticipate through stock price increase or dividends.
4. A marginal cost averaged across various sources of capital.

(A) P-1, Q-4, R-2, S-3
(B) P-3, Q-1, R-4, S-2
(C) P-4, Q-2, R-3, S-1
(D) P-2, Q-3, R-1, S-4

Oct/Nov 2005

45. Which of the following are potential causes for a discrepancy between book prices and market values?

I. Inflation causes the historical cost minus

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CHAPTER 13
Corporate Valuation

Oct/Nov 2016

1. The primary methodologies utilized in valuation are founded on all of the following economic concepts, EXCEPT:
(A) Price equilibrium
(B) Anticipation of benefits
(C) Substitution
(D) Historical cost realization

May/June 2021

2. Which of the following statements correctly describes the computation of the Cost of Capital?
(A) It is based on historical book value weights to ensure accounting consistency.
(B) It is defined using real terms rather than nominal terms to adjust for inflation.
(C) It is based on market value weights for each component of the financing.
(D) It is computed in pre-tax terms because free cash flow is expressed before taxes.

Oct/Nov 2005

3. How is the "Cost Approach" primarily described in corporate valuation?
(A) A method that calculates value by dividing net operating income by the capitalization rate.
(B) A method based on the assumption of an efficient stock market.
(C) A method that extracts value by combining the fair market value of the company's net assets.
(D) A technique calculating the total present value of all future cash flows.

May/June 2014

4. Which of the following statements about evaluating a company's historical performance is incorrect?
(A) Net Investment is the difference between gross investment and depreciation.
(B) EBIT is operating income received before taxes without debt obligations.
(C) ROIC reflects financial structure and operational performance identically.
(D) NOPLAT computations exclude interest expenses and non-operating income.

Oct/Nov 2023

5. The fundamental tenet upon which discounted cash flow (DCF) analysis is built is that:
(A) The book value of assets will always converge with their market value over time.
(B) Cash received today is more valuable than cash received at some point in the future.
(C) Multiples derived from comparable firms accurately reflect intrinsic worth.
(D) A company's capital structure remains entirely debt-free during the explicit forecast period.

May/June 2007

6. The calculation of Free Cash Flow (FCF) can be achieved using various formulations. Which of the following is NOT a correct representation of FCF?
(A) FCF = NOPLAT - Net investment
(B) FCF = EBIT + Taxes on EBIT - Net investment
(C) FCF = (NOPLAT + Depreciation) - (Net investment + Depreciation)
(D) FCF = Gross cash flow - Gross investment

Oct/Nov 2011

7. How is "Book Value" defined in the context of corporate valuation?
(A) The total market capitalization of a company as determined by current stock exchange prices.
(B) The value of an asset or business entity as established by its financial statements.
(C) The estimated price at which property would change hands between a willing buyer and a seller.
(D) The discounted present value of expected future earnings or anticipated net cash flows.

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Oct/Nov 2025

51. Consider the following statements regarding Return on Invested Capital (ROIC):

I. It is a less precise indicator of actual operating performance compared to return on equity.

II. When an asset is counted toward invested capital, its associated income must be counted against NOPLAT.

III. It focuses primarily on the actual operating performance of the business.

Which combination of statements is correct?

(A) I and II

(B) II and III

(C) I and III

(D) I, II, and III

May/June 2012

52. Arrange the following steps involved in the Direct Comparison Approach in the correct sequential order:

I. Adjust the comparable sales' values to reflect qualities of the subject property.

II. Determine the property's highest and best use.

III. Perform time adjustments to the unit price.

IV. Identify similar properties that have sold (comparables).

(A) II, IV, I, III

(B) II, IV, III, I

(C) IV, II, I, III

(D) IV, I, II, III

Oct/Nov 2014

53. Match the Multiples commonly used in the Direct Comparison Method with their counterparts:

List I: (Multiple)

P. Enterprise value to

Q. Company value to

R. Price to

S. Price to

List II: (Counterpart)

1. Earnings

2. Book value

3. Sales

4. EBIT

(A) P-2, Q-3, R-1, S-4

(B) P-3, Q-1, R-4, S-2

(C) P-3, Q-4, R-1, S-2

(D) P-4, Q-2, R-3, S-1

May/June 2019

54. Consider the following statements regarding the Direct Comparison Method:

I. It works best with comparable attributes requiring minimal tweaking, and is most accurate when the selling price is converted to a correct unit.

II. Multiples in this method are entirely objective and immune to manipulation or subjective biases by the appraiser.

Which of the above statement(s) is/are correct?

(A) Only I

(B) Only II

(C) Both I and II

(D) Neither I nor II

Oct/Nov 2006

55. Which of the following pairs correctly matches the non-operating asset type with its description?

(A) Surplus land — A non-operating asset evaluated based on market value.

(B) Disused structures — Intangible fixed assets essential for operations.

(C) Spectrum — A tangible asset valued via physical depreciation models.

(D) Work-in-process — A non-operating asset reflecting pension funds.

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May/June 2010

56. When translating a strategic vision into financial forecasts for high-growth companies, what is the most important input in the valuation process?

(A) The growth rate used to anticipate future revenues and earnings.

(B) The historical depreciation method used in the previous decade.

(C) The exact current book value of surplus land and fixed assets.

(D) The nominal interest rate on short-term current debt liabilities.

Oct/Nov 2022

57. Consider the following statements regarding the definition of Fair Market Value:

I. Property changes hands between a willing buyer and a willing seller.

II. The buyer must be under compulsion to buy to establish a firm floor price.

III. Both parties must have reasonable knowledge of relevant facts.

Which combination of statements is correct?

(A) I and II

Oct/Nov 2012

81. A valuer is evaluating a 5-bedroom villa for mortgage purposes using the Direct Comparison Approach. A comparable villa in the same geographic area recently sold for Rs. 10 Crore. The subject property has a larger carpet area, warranting a +4% adjustment, and a premium interior design, warranting a +2% adjustment. However, the subject property lacks a swimming pool that the comparable villa possesses, requiring a -3% adjustment. What is the net percentage adjustment to be made to the comparable property's value?
(A) +3%
(B) +9%
(C) -1%
(D) +6%

May/June 2011

82. The formula for determining an enterprise's value includes which of the following components?
I. Equity value
II. Short-term and long-term debts
III. Non-controlling interests
IV. Cash and cash equivalents (deducted)
V. Capital lease obligations
Which combination of statements is correct?
(A) I, II, III, and IV
(B) I, II, IV, and V
(C) II, III, IV, and V
(D) I, II, III, IV, and V

Oct/Nov 2020

83. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option.
Assertion (A): The book value of an asset might become increasingly disconnected from its actual value due to inflation.
Reason (R): Historical cost of the asset is subtracted from depreciation to arrive at book value, which does not take inflation into account.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2022

84. During the valuation of Gama Limited's inventory, the valuer finds finished goods on hand. According to the replacement cost modification, how should the inventory of finished goods be valued?
(A) Most recent cost of acquisition for raw material inventories.
(B) Cost of raw materials plus the direct cost of labor processing.
(C) Expected sale price less expenses for packaging and selling costs.
(D) Selling price less expenses to translate WIP into final sales.

Oct/Nov 2023

85. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option.
Assertion (A): The liquidation value approach pays extensive attention to the organizational capital of a business.
Reason (R): Organizational capital involves employees, customers, and suppliers in a mutually advantageous relationship that cannot be easily disassociated from the functioning entity.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2016

86. The steps involved in constructing financial forecasts include:
I. Choosing the explicit time period for the forecast.
II. Developing a strategic vision to improve future performance.
III. Translating the strategic vision into financial forecasts.
IV. Checking that everything is aligned and consistent.
Which combination of statements is correct?
(A) I, II, and IV
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, III, and IV

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I. It is a marginal cost representing the cost of obtaining extra money.
II. It represents a weighted average of costs of all sources of capital.
III. Cost of Capital is defined using real terms instead of nominal terms.
IV. It reflects risks that various sources of money are willing to take on.

Which combination of statements is correct?
(A) I, II, and III
(B) I, II, and IV
(C) II, III, and IV
(D) I, III, and IV

May/June 2009

64. Oceanic Corporation's securities are actively traded. As of the lien date, Oceanic has 10 lakh outstanding equity shares trading at Rs. 120 per share. It also has outstanding debt totaling Rs. 40 Crore, which currently has a market valuation of Rs. 38 Crore. What is the market value of Oceanic Corporation's equity?
(A) Rs. 120 Crore
(B) Rs. 1.2 Crore
(C) Rs. 12 Crore
(D) Rs. 10 Crore

Oct/Nov 2011

65. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option.
Assertion (A): In situations where multiple valuation methods are used, the valuer should avoid simply averaging the different values into a single conclusion.
Reason (R): Averaging the values would result in a value that is not representative of the market.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2010

66. A valuer is evaluating a 5-bedroom villa for mortgage purposes using the Direct Comparison Approach. A comparable villa in the same geographic area recently sold for Rs. 10 Crore. The subject property has a larger carpet area, warranting a +4% adjustment, and a premium interior design, warranting a +2% adjustment. However, the subject property lacks a swimming pool that the comparable villa possesses, requiring a -3% adjustment. After summing up all the different changes, what is the adjusted value of the subject property based on the comparable property's sale price?
(A) Rs. 10.60 Crore
(B) Rs. 9.70 Crore
(C) Rs. 10.30 Crore
(D) Rs. 10.90 Crore

Oct/Nov 2024

67. When selecting valuation methods, the following criteria should be considered:
I. The relevant basis and premises of value established by the assignment's terms.
II. The relative advantages and disadvantages of various approaches.
III. The appropriateness of each method regarding the nature of the asset.
IV. The accessibility of trustworthy information necessary to implement the approach.

Which combination of statements is correct?
(A) I, II, and III
(B) II, III, and IV
(C) I, III, and IV
(D) I, II, III, and IV

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May/June 2017

68. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option.
Assertion (A): Cost of capital relies on market value weights rather than book value weights for each financing component.
Reason (R): Market values indicate the market price of the asset being financed and represent the economic claims of multiple suppliers of capital.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

continuity value if it preferred a non-cash flow method?
(A) Value driver method
(B) Explicit forecast accumulation
(C) Price-PBIT ratio method
(D) NOPLAT capitalization

Oct/Nov 2006

95. Alpha Tech needs Rs. 10,00,000 as additional finance. It plans to raise it via Debt and Equity in a 30:70 ratio. The cost of Debt before tax is 12%. The company's tax rate (Tc) is 30%. What is the Post-Tax Average Cost of Additional Debt for Alpha Tech?
(A) 8.4%
(B) 12.0%
(C) 3.6%
(D) 15.0%

May/June 2021

96. Financial excerpts from Beta Industries show: Tax provision from income statement = Rs. 60 Lakh, Tax shield on interest expense = Rs. 12 Lakh, Tax on interest income = Rs. 4.5 Lakh, Tax on non-operating income = Rs. 3 Lakh. What are the Total Taxes on EBIT?
(A) Rs. 60 Lakh
(B) Rs. 64.5 Lakh
(C) Rs. 79.5 Lakh
(D) Rs. 55.5 Lakh

Oct/Nov 2010

97. Delta Logistics is undergoing DCF valuation. The explicit forecast period is 5 years. The Free Cash Flow during year 6 is projected to be Rs. 30 Lakh. The Weighted Average Cost of Capital (WACC) is 15%, and the constant growth rate (g) after the explicit forecast period is expected to be 5%. Using the growing free cash flow perpetuity method, what is the terminal (continuing) value of the enterprise at the end of year 5?
(A) Rs. 300 Lakh
(B) Rs. 150 Lakh
(C) Rs. 600 Lakh
(D) Rs. 200 Lakh

May/June 2005

98. Alpha Tech plans to raise additional finance via Equity. The expected EPS is Rs. 15, current market price is Rs. 75, dividend payout is 40%, and expected growth rate is 8%. What is the Cost of Equity (Ce) for Alpha Tech?
(A) 8.0%
(B) 16.0%
(C) 20.0%
(D) 12.0%

Oct/Nov 2022

99. Beta Industries generated a NOPLAT of Rs. 150.5 Lakh for the year. If Beta Industries had a Net Investment of Rs. 50.5 Lakh for the year, what would be its Free Cash Flow (FCF)?
(A) Rs. 201 Lakh
(B) Rs. 115 Lakh
(C) Rs. 86 Lakh
(D) Rs. 100 Lakh

May/June 2018

100. During the valuation of Delta Logistics, the calculated continuing value turns out to be significantly lower than its liquidation value. According to standard valuation strategies, what decision logic is implied by this scenario?
(A) The firm must continue operations indefinitely regardless of the liquidation value.
(B) The firm must recalculate WACC using book values to lower the discount rate.
(C) The firm should abandon DCF and strictly use the direct comparison method.
(D) There is potential for a gain in value from liquidation or divestiture.

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Oct/Nov 2008

75. Oceanic Corporation is being evaluated using the Stock and Debt Approach. Some appraisers argue that an average of recent stock prices should be used instead of the price on the lien date. Under what theoretical condition is this averaging considered UNNECESSARY?
(A) When the stock market is highly volatile.
(B) When the debt market valuation exactly matches the book value.
(C) When the company possesses significant organizational capital.
(D) When the stock market is believed to be efficient.

May/June 2006

76. The third stage in the comparable company method analyses the competitive and financial standing. This includes evaluating:
I. Portfolio of products and market categories.
II. Input cost and availability.
III. Competence and drive in management.
IV. Regulatory environment of the entire country.
Which combination of statements is correct?
(A) I, II, and III
(B) II, III, and IV
(C) I, III, and IV
(D) I, II, III, and IV

Oct/Nov 2017

77. Gama Limited owns a large manufacturing plant. Under the Adjusted Book Value method to factor replacement costs, how can the worth of this plant and machinery be determined?
(A) Directly using historical book values without any adjustments.
(B) Subtracting physical depreciation from historical acquisition.
(C) Determining the present value of future cash flows of the plant.
(D) Calculating market price of used assets plus transport and setup.

May/June 2008

78. Identifying characteristics of high-growth companies in the valuation model includes:
I. They are often in early stages of their life cycle.
II. They frequently have low revenues.
III. They consistently exhibit high positive operating margins initially.
IV. Their higher revenues must ultimately yield positive earnings to have survival chances.
V. Operating margin anticipation is an essential component to consider.
Which combination of statements is correct?
(A) I, II, III, and IV
(B) I, II, IV, and V
(C) I, III, IV, and V
(D) II, III, IV, and V

Oct/Nov 2013

79. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option.
Assertion (A): Finding contradictions between analysts' growth estimates and a company's fundamentals is often key to successfully valuing a company.
Reason (R): Fundamentals are the underlying factors that drive a company's performance, whereas analysts frequently make errors due to incorrect data or failing to notice shifts.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2015

80. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option.
Assertion (A): Cost of Capital is computed in post-tax terms in DCF analysis.
Reason (R): Free cash flow is expressed in post-tax terms, and computing cost of capital post-tax maintains consistency in the calculation.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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Oct/Nov 2005

69. Gama Limited has the following simplified Balance Sheet data: Total Assets stand at Rs. 150 Crore. The liabilities consist of Share Capital Rs. 60 Crore, Reserves and Surplus Rs. 20 Crore, Secured Loans Rs. 40 Crore, Unsecured Loans Rs. 10 Crore, and Current Liabilities and Provisions Rs. 20 Crore. Based on the Assets & Liabilities Approach, what is the total value of the company?

(A) Rs. 130 Crore
(B) Rs. 150 Crore
(C) Rs. 120 Crore
(D) Rs. 100 Crore

May/June 2020

70. Calculating the Cost of Capital involves the following stages and considerations:

I. Calculating percentages of each source used to raise funds.
II. Calculating the marginal cost of each source.
III. Determining WACC using historical book value percentages exclusively.
IV. Using nominal terms to express the amount of free cash flow.
V. Determining market value weights for each financing component.

Which combination of statements is correct?

(A) I, II, III, and IV
(B) I, II, IV, and V
(C) II, III, IV, and V
(D) I, III, IV, and V

Oct/Nov 2015

71. A valuer is evaluating a 5-bedroom villa using the Direct Comparison Approach. The valuer's methodology is fundamentally based on the Principle of Substitution. What does this principle dictate?

(A) A buyer will not pay more for a property than the cost of a comparable asset.
(B) A buyer will pay more for a property if the legal transaction is delayed.
(C) A buyer will substitute income methods when direct comparisons are missing.
(D) The value of organizational capital must substitute the value of assets.

May/June 2013

72. When predicting future growth, analysts utilize various types of information:

I. Publicly available information in the latest Annual Report.
II. Macroeconomic information affecting future growth.
III. Confidential information pertaining to the company.
IV. Previously undisclosed future prospect information obtained from competitors.

Which combination of statements is correct?

(A) I, II, and III
(B) I, II, and IV
(C) I, III, and IV
(D) I, II, III, and IV

Oct/Nov 2021

73. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option.

Assertion (A): In the direct comparison approach, time adjustments to the unit price should always be done first.

Reason (R): This establishes a time-adjusted price per unit before adding all other characteristic adjustments to get a completely adjusted price per unit.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2024

74. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option.

Assertion (A): If the stock market is believed to be efficient, there is no need for averaging stock prices over a period of time to determine value.

Reason (R): Efficient market prices of securities reflect all of the information that is readily available to the public.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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Oct/Nov 2009

87. Oceanic Corporation's securities are actively traded. As of the lien date, Oceanic has 10 lakh outstanding equity shares trading at Rs. 120 per share. It also has outstanding debt totaling Rs. 40 Crore, which currently has a market valuation of Rs. 38 Crore. Using the Stock and Debt Approach, what is the total value of Oceanic Corporation as of the lien date?
(A) Rs. 40 Crore
(B) Rs. 50 Crore
(C) Rs. 52 Crore
(D) Rs. 160 Crore

May/June 2023

88. Evaluating terminal value under non-cash flow methods includes:
I. Growing free cash flow perpetuity method
II. Replacement Cost Method
III. Price-PBIT ratio method
IV. Market-to-book ratio method
V. Value driver method
Which combination represents ONLY the Non-Cash Flow Methods?
(A) I, II, and V
(B) II, III, and IV
(C) I, IV, and V
(D) III, IV, and V

Oct/Nov 2018

89. Gama Limited has the following simplified Balance Sheet data: Total Assets stand at Rs. 150 Crore. The liabilities consist of Share Capital Rs. 60 Crore, Reserves and Surplus Rs. 20 Crore, Secured Loans Rs. 40 Crore, Unsecured Loans Rs. 10 Crore, and Current Liabilities and Provisions Rs. 20 Crore. The company wants to determine its value utilizing the Adjusted Book Value approaches. Based on the Investor Claims Approach, what is the total value of the company?
(A) Rs. 150 Crore
(B) Rs. 130 Crore
(C) Rs. 80 Crore
(D) Rs. 110 Crore

May/June 2007

90. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option.
Assertion (A): The Price-Earnings-Growth (PEG) ratio enables analysts to compare businesses that have varying rates of expansion.
Reason (R): The PEG ratio is computed by multiplying the price-to-earnings ratio by the predicted growth rate.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2025

91. Alpha Tech plans to raise additional finance via Debt and Equity in a 30:70 ratio. The Post-Tax Average Cost of Additional Debt is 8.4%, and the Cost of Equity is 16.0%. What is the Overall Weighted Average Cost of Additional Finance (WACC) for Alpha Tech?
(A) 12.20%
(B) 13.72%
(C) 14.50%
(D) 10.68%

May/June 2012

92. For Beta Industries, the calculated EBIT is Rs. 215 Lakh and the Total Taxes on EBIT are Rs. 64.5 Lakh. What is the NOPLAT for Beta Industries?
(A) Rs. 155 Lakh
(B) Rs. 140.5 Lakh
(C) Rs. 150.5 Lakh
(D) Rs. 135 Lakh

Oct/Nov 2014

93. Financial excerpts from Beta Industries show: Profit Before Tax = Rs. 200 Lakh, Interest Expense = Rs. 40 Lakh, Interest Income = Rs. 15 Lakh, Non-operating Income = Rs. 10 Lakh. Tax provision from income statement = Rs. 60 Lakh. What is the EBIT for Beta Industries?
(A) Rs. 225 Lakh
(B) Rs. 255 Lakh
(C) Rs. 185 Lakh
(D) Rs. 215 Lakh

May/June 2019

94. Delta Logistics is determining its continuity value at the end of the explicit forecast period. Which of the following methods could Delta Logistics alternatively use to express the

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(B) I and III
(C) II and III
(D) I, II, and III

May/June 2018

58. Match the Assets with their replacement cost valuation methodology:
List I: (Asset)
P. Finished Goods Inventory
Q. Work-in-process Inventory
R. Receivables
S. Tangible Fixed Assets
List II: (Valuation Methodology)
1. Valued at face value; setting aside money for defaulted debts if needed.
2. Market price of comparable used assets plus transport and installation.
3. Selling price of final product less expenses incurred in translating into sales.
4. Sale price less expenses for packaging, processing, transporting, and selling.
(A) P-4, Q-3, R-1, S-2
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

Oct/Nov 2016

59. Consider the following statements regarding Firm Valuation:
I. The fundamental goal of management is to maximize the value of the firm, and if they cannot increase shareholder value, they are held accountable.
II. Book value and Market value are identical concepts, both relying exclusively on the capitalization of future cash flows.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2014

60. Match the Terminal Value estimation methods with their classification:
List I: (Terminal Value Method)
P. Growing free cash flow perpetuity method
Q. Value driver method
R. Replacement Cost Method
S. Price-PBIT ratio method
List II: (Classification)
1. Expresses continuity value in terms of NOPLAT, expected rate of return and growth rate.
2. Assumes cash flows will grow at a constant rate forever.
3. A non-cash flow method based on rebuilding value.
4. A non-cash flow method using a multiple of profit before interest and taxes.
(A) P-1, Q-4, R-2, S-3
(B) P-2, Q-1, R-3, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

Oct/Nov 2007

61. Economic analysis in the comparable company method requires estimating which of the following?
I. Growth rates of the gross domestic product
II. Industrial output
III. Government budget and agricultural production
IV. Movement of interest rates and balance of payment
V. Competitor's specific client loyalty metrics
Which combination of statements is correct?
(A) I, II, III, and IV
(B) I, II, III, and V
(C) I, III, IV, and V
(D) I, II, III, IV, and V

May/June 2025

62. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option.
Assertion (A): The DCF method of valuing a firm segments the value into the explicit forecast period and the period after it.
Reason (R): A business entity is presumed to have a definite life, exactly like a standard capital project.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2019

63. Consider the following statements regarding the WACC:

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ANSWERS

1. (D) Historical cost realization
Valuation relies on forward-looking economic concepts. Historical cost realization refers to past accounting entries, not current market value derived from future expectations. Methods like discounted cash flow and market comparisons use anticipation of benefits and substitution principles. Economic equilibrium ensures market prices reflect underlying value, whereas historical costs often diverge significantly from real economic worth over time.

2. (C) It is based on market value weights for each component of the financing.
Financial theory dictates using market value weights for each component of financing when computing the weighted average cost of capital. Market values reflect current economic claims and the true cost of attracting capital in present conditions. Book values are based on historical costs and do not represent the current opportunity cost or risk profiles required by modern investors in efficient markets.

3. (C) A method that extracts value by combining the fair market value of the company's net assets.
The cost approach, often called the asset-based approach, determines a company's value by summing the fair market values of its individual assets and subtracting liabilities. This method focuses on the net asset value rather than future earnings. It is particularly relevant for asset-heavy firms or holding companies where the intrinsic worth is closely tied to the underlying physical or financial resources.

4. (C) ROIC reflects financial structure and operational performance identically.
Return on invested capital is specifically designed to measure the operational efficiency of a business independently of its financing decisions. It separates operating performance from financial structure, allowing for a clearer comparison across firms with different debt-to-equity ratios. Unlike return on equity, which is influenced by leverage, this metric provides a pure view of how well a company utilizes its core operating assets.

5. (B) Cash received today is more valuable than cash received at some point in the future.
Discounted cash flow analysis is fundamentally based on the time value of money concept. This principle asserts that a specific amount of currency available today is worth more than the same amount received in the future due to its potential earning capacity. Investors require compensation for delaying consumption and for the uncertainty associated with receiving future payments, necessitating the use of discount rates.

6. (B) FCF = EBIT + Taxes on EBIT - Net investment
Free cash flow represents the cash available to all capital providers after operating expenses and necessary investments are covered. The standard starting point is net operating profit less adjusted taxes. Adding taxes back to earnings before interest and taxes would incorrectly inflate the available cash. Proper formulations must subtract taxes to reflect the actual cash remaining for distribution to investors or for reinvestment.

7. (B) The value of an asset or business entity as established by its financial statements.
Book value represents the net worth of an asset or an entire business entity as recorded on its official financial statements. It is calculated by taking the historical cost of assets and subtracting accumulated depreciation or amortization. This accounting-based figure often differs from market value because it does not account for current market fluctuations, intangible brand value, or future earnings potential of the assets.

8. (B) It takes into account the price of a recent transaction or the price of comparable assets.
The market approach determines the value of a business by analyzing recent sales or trading data of similar assets or companies. It relies on the principle of substitution, assuming that a prudent buyer would pay no more than the price at which a comparable utility can be acquired. This method provides real-world evidence of

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value based on actual transactions in the current marketplace.

9. (B) A valuer must always use multiple approaches and average their results to find the final value.
Professional standards require valuers to consider multiple approaches but do not mandate averaging the results. The choice of methodology depends on the specific nature of the asset and the availability of data. Merely averaging different values might lead to an imprecise conclusion. Instead, a valuer should reconcile various findings to arrive at a single value that best represents the economic reality.

10. (C) Dividing the price-to-earnings ratio by the predicted growth rate.
The price-to-earnings-to-growth ratio is a financial metric used to determine the relative value of a stock while accounting for its earnings growth. It is calculated by dividing the price-to-earnings multiple by the projected annual growth rate of the company. This tool helps investors identify stocks that may be undervalued despite having high multiples, provided their growth potential is sufficiently robust and sustainable.

11. (D) Return on assets is preferred over ROIC due to internal consistency rules.
Return on invested capital is generally preferred over return on assets because it focuses strictly on the capital used for core operations. It ensures internal consistency by matching operating income with the specific capital that generated it. Using total assets can be misleading if a firm holds significant non-operating assets, such as excess cash or investments, which do not contribute to operating profits.

12. (C) The difference between gross investment and the amount of depreciation.
Net investment represents the total amount spent on acquiring new capital assets minus the depreciation of existing assets. In the context of free cash flow, it reflects the actual increase in the capital base required to support future growth. This figure accounts for the fact that some capital expenditure is merely used to replace worn-out equipment rather than expanding the company's productive capacity.

13. (A) Value securities using the market price on the lien date without averaging.
The efficient market hypothesis suggests that security prices reflect all publicly available information instantaneously. In such markets, the current trading price on a specific date is considered the best estimate of intrinsic value. Consequently, analysts using the stock and debt approach do not need to average prices over long periods, as the market price on the valuation date already incorporates all relevant data.

14. (C) Multiples may lead to overvaluation when comparing unlisted and listed firms.
A significant challenge in the direct comparison method is the potential for overvaluation when comparing private firms to publicly listed counterparts. Listed companies often enjoy a liquidity premium and greater transparency, which justifies higher multiples. Failing to adjust for lack of marketability or smaller size in unlisted entities can result in an inflated valuation that does not accurately reflect the subject company's worth.

15. (D) Work-in-process inventory
Work-in-process inventory consists of goods currently in the production cycle and is essential for generating primary revenue. Therefore, it is classified as an operating asset rather than a non-operating one. Non-operating assets are items not central to core business activities, such as excess land, disused buildings, or marketable securities held for investment purposes, which do not contribute directly to manufacturing output.

16. (A) The valuation placed on a complete company, including its debts and commitments.
Enterprise value represents the total economic value of a business, encompassing both its equity and its various debt obligations. It is often viewed as the theoretical takeover price, as an acquirer would assume the company's debt while gaining its cash. This metric provides a more comprehensive picture of a firm's worth than market capitalization alone, as it considers the entire capital structure.

17. (A) When converting the selling price to a correct unit, time adjustments should be performed last.
In the direct comparison approach, time adjustments should typically be performed

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before other characteristic adjustments. This sequence ensures that the comparable sale price is updated to current market conditions before specific physical or functional differences are addressed. By establishing a time-adjusted unit price first, the valuer creates a consistent baseline for making further refinements based on the unique attributes of the subject property.

18. (A) NOPLAT = EBIT - Taxes on EBIT
Net operating profit less adjusted taxes is calculated by taking earnings before interest and taxes and subtracting the taxes specifically related to those operating earnings. This metric represents the cash earnings available to all providers of capital, both debt and equity. By excluding the tax effects of interest and non-operating items, it provides a clear view of the core profitability of business operations.

19. (D) It is capital used to acquire operating assets plus operating working capital.
Operating invested capital represents the total investment required to support a company's core business activities. It is calculated by adding the net fixed assets used in operations to the operating working capital, which includes current assets like inventory and receivables minus non-interest-bearing current liabilities. This figure excludes non-operating items such as excess cash or financial investments, focusing purely on the capital generating revenue.

20. (A) Keep the project if continuing value is the highest possible outcome.
Management must compare the continuing value, liquidation value, and divestiture value of a project to determine the best course of action. If the present value of future cash flows from continuing the project exceeds the proceeds from selling or liquidating it, the firm should maintain the project. This logic holds even if current returns are below the cost of capital, provided future prospects improve.

21. (C) Value driver method
The value driver method is a cash-flow-based approach used to estimate terminal value by focusing on key variables like growth and return on new investment. Unlike the replacement cost or market-to-book methods, which rely on accounting or market multiples, the value driver formula derives value directly from the expected future cash generation capacity of the business, making it a fundamentally cash-oriented valuation technique.

22. (B) United States Internal Revenue Service (IRS)
The concept of fair market value, widely used in global valuation practices, was originally propounded by the United States Internal Revenue Service. It defines value as the price at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of the relevant facts regarding the transaction.

23. (D) It values the company as separate assets and ignores organizational capital.
A major limitation of the liquidation approach is that it treats a company as a collection of separate physical assets rather than a functioning entity. This method fails to account for organizational capital, which includes the synergies, systems, and relationships with employees and customers that add value to a going concern. Consequently, it often underestimates the true worth of a productive business enterprise.

24. (D) Organizational capital is prominently featured and quantified on the balance sheet.
In standard accounting, organizational capital is rarely quantified or recorded on the balance sheet unless it is acquired through a business combination. This represents a significant gap between book value and market value, as the skills, processes, and relationships that drive performance are omitted from financial statements. Therefore, claiming that organizational capital is prominently featured is incorrect, as it is largely an intangible asset.

25. (B) It utilizes the net operating income (NOI) divided by the rate of capitalization.
The income approach determines the value of an asset or business by calculating the present value of its future economic benefits. One common method within this approach involves dividing the net operating income by an appropriate capitalization rate. This technique translates an expected stream of income into a lump-sum value, reflecting what an investor is willing to pay today for future cash generation.

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44. (D) P-2, Q-3, R-1, S-4
The cost of debt is directly related to the interest paid on borrowed funds. Cost of equity represents the returns expected by shareholders through dividends and capital appreciation. The overall cost of capital reflects the risks that various funding sources are willing to accept. Finally, the weighted average cost of capital is a marginal figure that averages these costs based on their proportions.

45. (A) I and II
Discrepancies between book and market values often arise from inflation, which makes historical costs irrelevant, and technological changes that cause rapid asset obsolescence. Statement III is incorrect because organizational capital is generally not recorded on the balance sheet, which typically leads to an undervaluation of the company's true worth. These factors highlight why accounting figures often fail to capture the real economic value.

46. (B) For regulated industries or firms worth more in the grave than living.
The unadjusted book value or liquidation approach is most suitable for regulated industries where asset values are strictly controlled or for failing firms whose assets are worth more sold separately than as a going concern. In these cases, future earnings are either capped by regulation or non-existent due to financial distress, making the valuation of individual tangible assets the most practical assessment method.

47. (A) Only I
When calculating EBIT for NOPLAT purposes, interest income and expenses are excluded to focus purely on operating performance. However, statement II is incorrect because the tax shield on interest expense should be added back to the tax provision to find the total taxes on EBIT. This adjustment ensures that the taxes reflect what the company would pay if it were entirely equity-financed.

48. (B) P-4, Q-2, R-1, S-3
Book value is derived from a company's financial statements. Market value is calculated by multiplying the share price by the total number of outstanding shares. Enterprise value provides an approximation of the worth of an entity's operating assets, including its debt. Fair market value is defined as the price agreed upon by a willing buyer and seller in an arms-length transaction.

49. (A) Book Value — Value derived purely from discounting predicted cash flows using the marginal cost of capital.
The definition provided for book value is incorrect. Book value is an accounting measure based on historical costs recorded in financial statements, not a value derived from discounting future cash flows. Discounting future cash flows is the basis of the income approach or discounted cash flow method, which aims to determine the intrinsic or economic value of an asset rather than its accounting net worth.

50. (C) P-3, Q-1, R-4, S-2
Assets in situ are existing assets that generate current cash flows. Growth assets represent future expansion opportunities expected to be acquired. High-growth companies are characterized by low initial revenues and often negative operating margins as they scale. A strategic vision must be carefully developed and translated into quantitative financial forecasts to provide a reliable basis for predicting a company's long-term performance and value.

51. (B) II and III
Return on invested capital is a more precise indicator of operating performance than return on equity because it is not distorted by financial leverage. It focuses exclusively on the efficiency of the core business operations. To ensure consistency, if an asset is included in the invested capital denominator, any income it generates must also be included in the NOPLAT numerator for the calculation.

52. (A) II, IV, I, III
The direct comparison approach begins by determining the property's highest and best use to ensure valid comparisons. Next, the valuer identifies similar properties that have recently sold. After this, time adjustments are performed to ensure the unit price reflects current market conditions at the time of the valuation. Finally, the comparable sales values are adjusted to account for specific qualities and differences.

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35. (A) P-2, Q-3, R-1, S-4
NOPLAT is correctly identified as earnings before interest and taxes minus the taxes on those earnings. Free cash flow is the difference between NOPLAT and net investment. Return on invested capital is calculated by dividing NOPLAT by the operating invested capital. Finally, net investment is the total gross investment made during the period minus the depreciation and amortization expenses recognized for those assets.

36. (A) I and II
A company's intrinsic value is derived from the present value of its expected future cash flows. For high-growth firms, the growth rate is often the most critical variable in determining value. However, statement III is false because many high-growth startups in their early stages frequently experience negative operating margins as they prioritize market share expansion and research over immediate profitability during their development.

37. (A) Asset-intensive businesses, holding corporations, and troubled entities.
The cost approach is most effective for valuing asset-intensive companies, holding corporations, or entities facing liquidation. In these scenarios, the business's value is primarily derived from its underlying physical or financial assets rather than ongoing operations or complex intangible drivers. It provides a reliable floor value by summing the individual market values of all assets and subtracting the firm's total liabilities.

38. (D) P-3, Q-4, R-1, S-2
The process of analyzing comparable companies begins with a broad economic assessment of GDP and interest rates. The second stage involves evaluating the specific sector's life cycle and regulatory environment. Subsequently, the subject company's own competitive and financial position is scrutinized. In the final stage, the company's performance is benchmarked against peers to determine its relative standing and apply appropriate valuation multiples.

39. (C) Both I and II
In an efficient market, security prices are assumed to incorporate all available public information immediately. Therefore, the market price on a specific date, such as the lien date, is considered a reliable indicator of value, making the averaging of historical prices unnecessary. This principle ensures that the valuation reflects the most current market consensus regarding the firm's assets and future earning potential.

40. (D) P-2, Q-4, R-1, S-3
The market approach uses transaction data from comparable assets to determine value. The income approach focuses on the present value of future economic benefits like cash flows. The cost approach builds value by summing the fair market value of net assets. Lastly, the stock and debt approach calculates a firm's total worth by adding the current market values of all its outstanding securities.

41. (B) I and III
Free cash flow is the post-tax cash generated from operations that is available for distribution to all investors. It is calculated after accounting for necessary investments in fixed assets, making statement II incorrect. To determine the total cash available to both equity and debt holders, non-operating cash flows, such as those from investments or non-core assets, are added to the operating cash flows.

42. (C) Price-earnings-growth (PEG) ratio
The price-to-earnings-to-growth ratio is the most effective tool for adjusting valuations when a subject company grows at a rate different from the industry average. By dividing the price-to-earnings multiple by the growth rate, analysts can normalize the comparison across firms with different expansion profiles. This helps prevent overvaluing slow-growth companies or undervaluing those with significant, sustainable high-growth potential in their sectors.

43. (B) Second Step — Finding out data in respect of comparable past sales.
The second step in the direct comparison approach involves identifying and gathering data on comparable properties that have recently been sold. This follows the initial determination of the subject property's highest and best use. Collecting accurate transaction data from similar assets is crucial for establishing a reliable basis for comparison and making necessary adjustments to reflect the unique characteristics of the subject property.

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26. (D) The rate of return that must be offered to investors for their capital.
From an investor's perspective, the cost of capital represents the minimum rate of return required to provide funds to a specific business. It serves as an opportunity cost, as investors compare the risk and potential reward of one investment against others in the marketplace. This rate must compensate for the risk taken, ensuring the company remains attractive to suppliers of debt and equity.

27. (A) Stock and Debt approach
While used in specific contexts, the stock and debt approach is generally not classified as one of the three primary, internationally recognized valuation methodologies. The three main pillars are the market approach, the income approach, and the cost approach. These frameworks provide a comprehensive basis for determining value across different industries and asset types, whereas the stock and debt method is a specific application.

28. (A) 5 to 15 years
In discounted cash flow analysis, the explicit forecast period typically ranges from five to fifteen years. This duration allows the valuer to model the company's growth and profitability as it moves toward a stable, steady-state condition. After this period, a terminal value is calculated to capture the business's worth in perpetuity, assuming it has reached a mature phase of predictable growth.

29. (C) Cash and cash equivalents are added to equity and debt to find the value.
In the calculation of enterprise value, cash and cash equivalents are subtracted from the sum of equity and debt, not added. This is because cash is considered a non-operating asset that reduces the net cost of acquiring the business. Subtracting cash reflects the fact that an acquirer could use the company's own liquid assets to pay down a portion of the purchase price.

30. (D) It refers to the cost of obtaining extra money through various sources.
The weighted average cost of capital is considered a marginal concept because it represents the cost the firm incurs to raise an additional unit of capital. It focuses on the current market rates required to attract new funding rather than historical costs. This forward-looking perspective is essential for making investment decisions, as new projects must generate returns exceeding the cost of the new capital used.

31. (A) III, I, IV, V, II
The DCF approach begins with analyzing historical performance to establish a baseline for financial metrics. Once historical trends are understood, free cash flows are calculated based on these insights. Following this, the weighted average cost of capital is determined to serve as the discount rate. Finally, future cash flows are forecasted for an explicit period, and a terminal value is estimated.

32. (B) NOPLAT — EBIT + Interest expense - Tax on non-operating income.
The provided formula for NOPLAT is incorrect because it adds interest expense back to EBIT, which is redundant since EBIT already excludes interest. NOPLAT should be calculated by taking EBIT and subtracting the taxes specifically applicable to those operating profits. This ensures the resulting figure reflects the core after-tax profitability of the business operations, available for distribution to all capital providers without double-counting.

33. (B) It ignores organizational capital and values the firm as separate assets.
The most significant flaw of the liquidation approach is its failure to account for the value of organizational capital within a functioning business. It treats the company as a collection of disjointed assets to be sold individually, ignoring the synergies and operational efficiencies created by management and employees. This typically leads to a valuation that is lower than the true worth of a going concern.

34. (A) Only I
The cost of capital must be calculated in post-tax terms to maintain consistency with free cash flow, which is also expressed after taxes. However, statement II is incorrect because cost of capital should be based on market value weights rather than historical book value weights. Market weights better represent the current economic reality and the actual costs required to attract investors in today's market.

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53. (C) P-3, Q-4, R-1, S-2
Common valuation multiples include enterprise value to sales, which assesses a company's total value relative to its revenue. Company value to EBIT measures worth against operating profits. The price-to-earnings ratio is a standard metric for comparing stock price to net income. Additionally, the price-to-book value ratio compares the market capitalization of a firm to its accounting net worth as recorded in financials.

54. (A) Only I
The direct comparison method is most effective when the subject and comparables have similar attributes requiring minimal adjustments. However, statement II is incorrect because multiples are not entirely objective. They can be influenced by the selection of peers and the specific financial metrics chosen by the appraiser. Subjective judgment plays a role in determining which firms are truly comparable and how to weigh their multiples.

55. (A) Surplus land — A non-operating asset evaluated based on market value.
Surplus land is a classic example of a non-operating asset because it is not required for the company's daily business activities. It is typically valued based on its current market value rather than its historical cost or operational utility. Other items like disused structures are also non-operating, but they are tangible assets, unlike spectrum, which is an intangible asset that might be operating.

56. (A) The growth rate used to anticipate future revenues and earnings.
When valuing high-growth companies, the growth rate is the most critical input for translating a strategic vision into financial forecasts. It determines the trajectory of future revenues and earnings, which are then discounted to find the present value. While historical data and book values provide context, the anticipated expansion rate has the most significant impact on the final valuation of the enterprise.

57. (B) I and III
Fair market value requires a transaction between a willing buyer and a willing seller, both acting without compulsion. It also assumes that both parties have reasonable knowledge of all relevant facts. Statement II is incorrect because compulsion would distort the price, preventing it from reflecting a true market-clearing value. This standard ensures that the valuation is based on an open and competitive market environment.

58. (A) P-4, Q-3, R-1, S-2
Finished goods are valued at their expected sale price minus packaging and selling costs. Work-in-process is valued based on the final product's price less the remaining expenses needed to complete and sell it. Receivables are taken at face value with a provision for bad debts. Tangible fixed assets are assessed using the market price of comparable used assets plus any transport and setup costs.

59. (A) Only I
Maximizing firm value is a core management objective, and leaders are accountable for failing to increase shareholder wealth. However, statement II is incorrect because book value and market value are distinct concepts. Book value is an accounting measure based on historical costs, while market value is determined by the marketplace's assessment of current worth and future potential, often through the capitalization of cash flows.

60. (B) P-2, Q-1, R-3, S-4
The growing free cash flow perpetuity method assumes a constant growth rate forever. The value driver method links terminal value to NOPLAT, growth, and the rate of return. Replacement cost is a non-cash flow method focusing on the cost to rebuild the business's assets. Similarly, the Price-PBIT ratio method uses a market multiple of operating profits to estimate the firm's value at maturity.

61. (A) I, II, III, and IV
In the comparable company method, economic analysis involves evaluating macro-level factors that influence all businesses. These include GDP growth, industrial output, government fiscal policy, agricultural production, interest rates, and the balance of payments. While competitor-specific metrics are important in later stages of the valuation, they are not typically considered part of the initial high-level economic analysis that sets the stage for the industry evaluation.

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97. (A) Rs. 300 Lakh
Using the growing free cash flow perpetuity method, terminal value is calculated by dividing the first year's cash flow after the explicit period by the difference between the WACC and the growth rate. For Delta Logistics, this is Rs. 30 Lakh / (15% - 5%), which equals Rs. 30 Lakh / 10%. This calculation results in a terminal value of Rs. 300 Lakh.

98. (B) 16.0%
The cost of equity is calculated by adding the dividend yield to the expected growth rate. First, find the dividend: Rs. 15 (EPS) * 40% (payout) = Rs. 6. Next, calculate the dividend yield: Rs. 6 / Rs. 75 (market price) = 8%. Finally, add the 8% growth rate to the 8% yield to arrive at a total cost of equity of 16.0%.

99. (D) Rs. 100 Lakh
Free cash flow is determined by subtracting net investment from the net operating profit less adjusted taxes. In this case, Beta Industries generated a NOPLAT of Rs. 150.5 Lakh and required a net investment of Rs. 50.5 Lakh to support its operations. Subtracting the net investment from NOPLAT (150.5 - 50.5) results in a total free cash flow of Rs. 100 Lakh.

100. (D) There is potential for a gain in value from liquidation or divestiture.
When the continuing value of a business is lower than its liquidation value, it suggests that the assets are worth more sold separately than as a going concern. This scenario indicates that the current operations are not generating sufficient cash flows to justify maintaining the business in its current form. In such cases, management should consider liquidation or divestiture to maximize value.

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71. (A) A buyer will not pay more for a property than the cost of a comparable asset.
The principle of substitution is a cornerstone of the direct comparison approach. It posits that a rational buyer would not pay more for a specific property than the cost of acquiring an alternative property with similar utility and characteristics. This principle ensures that market values are grounded in the actual prices of comparable assets available in the current competitive real estate environment.

72. (A) I, II, and III
Analysts predict future growth by synthesizing information from annual reports, macroeconomic trends, and confidential internal company data. While publicly available documents provide a foundation, deeper insights into management's strategy and economic cycles are vital for accurate forecasting. Information obtained from competitors (statement IV) is typically not used in standard valuation models as it may be unreliable or legally restricted under confidentiality.

73. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
In the direct comparison approach, performing time adjustments first is a standard procedure. This step adjusts the historical sale price of a comparable property to reflect current market price levels before addressing specific physical or functional differences. By establishing this time-adjusted baseline, the valuer can more accurately apply further adjustments for unique characteristics, leading to a more precise and reliable final valuation.

74. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
In an efficient market, security prices are assumed to incorporate all publicly available information instantly. Consequently, the current market price on a specific date is considered the most accurate reflection of a company's value. Averaging prices over time becomes unnecessary because any historical data is already reflected in the current price, which represents the most up-to-date consensus among all market participants and investors.

75. (D) When the stock market is believed to be efficient.
Under the efficient market hypothesis, averaging stock prices is considered unnecessary because the current market price is assumed to fully reflect all available information. In such a market, any fluctuations are seen as immediate responses to new data, making the price on the valuation date the most reliable indicator of intrinsic worth. Averaging would only serve to dilute this current, relevant market information.

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76. (A) I, II, and III
The third stage of the comparable company method focuses on the subject company's internal strengths and weaknesses. This includes evaluating its product portfolio, market reach, input cost stability, and the quality of its management team. Evaluating the national regulatory environment (statement IV) is typically part of the second stage, which examines the broader sector rather than the specific competitive standing of the individual firm.

77. (D) Calculating market price of used assets plus transport and setup.
To determine the worth of plant and machinery using the adjusted book value method, a valuer should look at the current replacement cost. This is calculated by finding the market price of comparable used assets and adding the costs for transportation and installation at the current site. This approach provides a more realistic estimate of the asset's current economic value than historical book records.

78. (B) I, II, IV, and V
High-growth companies are often in early lifecycle stages with low initial revenues. For long-term survival, these revenues must eventually translate into positive earnings. While operating margin anticipation is crucial, these firms typically show negative margins initially as they invest heavily in expansion, making statement III incorrect. Understanding these traits is essential for building a realistic valuation model for such dynamic business entities.

62. (C) Assertion (A) is true, but Reason (R) is false.
The discounted cash flow method does segment value into an explicit forecast period and a terminal period. However, the reason is false because, unlike a standard project with a finite duration, a business entity is typically presumed to have an indefinite life. The terminal value is specifically designed to capture the value of these cash flows that are expected to continue into perpetuity.

63. (B) I, II, and IV
WACC is a marginal cost reflecting the expense of raising new capital and represents a weighted average of all funding sources. It also incorporates the risk levels required by various investors. However, statement III is incorrect because cost of capital is typically defined in nominal terms to match the nominal free cash flows often used in financial modeling, ensuring consistency in the valuation process.

64. (C) Rs. 12 Crore
To find the market value of equity, multiply the number of outstanding shares by the current market price per share. In this case, Oceanic Corporation has ten lakh (1,000,000) equity shares trading at Rs. 120 each. This calculation results in a total market capitalization of Rs. 1,200 lakh, which is equivalent to Rs. 12 Crore. The debt valuation is not used for this specific calculation.

65. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Valuers should avoid simply averaging results from different methods because each approach may have varying levels of reliability and relevance to the specific asset. An average might mask important nuances or give undue weight to a less appropriate methodology. Reconciling the values allows the appraiser to select or weight the conclusion that best reflects the market reality and the purpose of the assignment.

66. (C) Rs. 10.30 Crore
The adjusted value is calculated by applying the net percentage change to the comparable property's sale price of Rs. 10 Crore. The adjustments include +4% for area, +2% for interiors, and -3% for the lack of a pool, resulting in a net increase of +3%. Applying this 3% increase to the original Rs. 10 Crore price gives a final adjusted value of Rs. 10.30 Crore.

67. (D) I, II, III, and IV
Selecting the correct valuation methodology requires a comprehensive review of the assignment's terms, the specific nature of the asset, and the availability of reliable data. A valuer must weigh the relative strengths and weaknesses of each approach to ensure the chosen method aligns with the premise of value. All four criteria mentioned are essential for conducting a professional, accurate, and defensible valuation.

68. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Financial theory mandates using market value weights for the cost of capital because they reflect the current economic reality of what investors require. Market values represent the present price of financing components and the true opportunity costs in the capital markets. Unlike book values, which are historical and often outdated, market weights provide a more accurate representation of the claims held by different suppliers of capital.

69. (A) Rs. 130 Crore
Using the assets and liabilities approach, the total value of the company is determined by subtracting current liabilities and provisions from the total assets. For Gama Limited, subtracting the Rs. 20 Crore in current liabilities from the total assets of Rs. 150 Crore results in a company value of Rs. 130 Crore. This method focuses on the net value of the firm's resources.

70. (B) I, II, IV, and V
Calculating the cost of capital involves determining the proportions of various funding sources and their respective marginal costs. It is essential to use market value weights rather than historical book value percentages to reflect current economic conditions. Additionally, free cash flow should be expressed in nominal terms, matching the nominal discount rate to ensure internal consistency and accuracy throughout the entire valuation model.

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87. (B) Rs. 50 Crore
Using the stock and debt approach, the total value of the corporation is the sum of the market value of its equity and its debt. The market value of equity is Rs. 12 Crore (10 lakh shares at Rs. 120 each), and the market value of the debt is Rs. 38 Crore. Adding these two figures together results in a total firm value of Rs. 50 Crore.

88. (B) II, III, and IV
Non-cash flow methods for estimating terminal value include the replacement cost method, the price-to-operating-profit ratio (Price-PBIT), and the market-to-book ratio. Unlike the growing perpetuity or value driver methods, these do not rely directly on projected future cash flows. Instead, they use accounting-based values or market multiples of earnings and assets to determine the company's worth at the end of the explicit forecast period.

89. (B) Rs. 130 Crore
The investor claims approach calculates company value by summing all the financial claims against the firm's assets. For Gama Limited, this includes share capital (Rs. 60 Cr), reserves (Rs. 20 Cr), secured loans (Rs. 40 Cr), and unsecured loans (Rs. 10 Cr). Adding these components together yields a total value of Rs. 130 Crore, which matches the value derived from the assets minus current liabilities.

90. (C) Assertion (A) is true, but Reason (R) is false.
The PEG ratio is a valuable tool for comparing companies with different growth rates because it normalizes the price-to-earnings multiple. However, the reason is false because the PEG ratio is calculated by dividing the price-to-earnings ratio by the growth rate, not by multiplying them. Correct calculation is essential for identifying whether a high-multiple stock is justified by its superior growth prospects in the market.

91. (B) 13.72%
WACC is calculated as the weighted average of the costs of different funding sources. For Alpha Tech, the debt portion is 30% with a cost of 8.4%, and the equity portion is 70% with a cost of 16.0%. The calculation is (0.30 * 8.4%) + (0.70 * 16.0%), which equals 2.52% + 11.20%. Summing these weighted costs results in an overall WACC of 13.72%.

92. (C) Rs. 150.5 Lakh
NOPLAT is calculated by subtracting the total taxes on EBIT from the EBIT itself. For Beta Industries, the EBIT is Rs. 215 Lakh and the taxes specifically related to that operating income are Rs. 64.5 Lakh. Subtracting 64.5 from 215 results in a net operating profit less adjusted taxes of Rs. 150.5 Lakh, representing the core after-tax profitability of the business.

93. (D) Rs. 215 Lakh
To calculate EBIT, start with Profit Before Tax and add back interest expense while subtracting interest income and non-operating income. For Beta Industries: Rs. 200 Lakh (PBT) + Rs. 40 Lakh (Interest Expense) - Rs. 15 Lakh (Interest Income) - Rs. 10 Lakh (Non-operating Income) = Rs. 215 Lakh. This metric isolates the operating profit generated from the company's core business activities.

94. (C) Price-PBIT ratio method
If Delta Logistics prefers a non-cash flow method to estimate its continuity value, the Price-PBIT ratio method is a suitable alternative. This approach uses a market-derived multiple of profit before interest and taxes to determine the firm's worth at the end of the explicit forecast period. It avoids the complexities of perpetuity growth assumptions required by the value driver or cash-flow-based methods.

95. (A) 8.4%
The post-tax cost of debt is calculated by multiplying the pre-tax interest rate by one minus the corporate tax rate. For Alpha Tech, the pre-tax cost of debt is 12% and the tax rate is 30%. The calculation is 12% * (1 - 0.30), which equals 12% * 0.70, resulting in a post-tax cost of additional debt of 8.4% for the company.

96. (B) Rs. 64.5 Lakh
Total taxes on EBIT are calculated by taking the tax provision from the income statement, adding back the tax shield on interest expense, and subtracting the taxes on non-operating income and interest income. For Beta Industries: Rs. 60 Lakh + Rs. 12 Lakh - Rs. 3 Lakh - Rs. 4.5 Lakh = Rs. 64.5 Lakh. This adjustment isolates taxes related purely to operations.

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79. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Successful valuation often involves identifying discrepancies between analyst projections and a company's underlying fundamentals. Fundamentals are the core economic drivers of performance, while analysts may be influenced by short-term trends or incorrect data. By focusing on the true drivers of value, such as competitive advantage and capital efficiency, a valuer can spot mispricing in the market that others might overlook.

80. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Using a post-tax cost of capital is essential for maintaining consistency in discounted cash flow analysis. Since free cash flows are calculated after taxes, the discount rate must also reflect the after-tax cost of funding. This alignment ensures that the resulting present value correctly reflects the economic benefits available to investors, who are ultimately concerned with their returns after corporate tax obligations.

81. (A) +3%
The net percentage adjustment is the sum of all individual changes made to the comparable property's value. In this scenario, the adjustments are +4% for the larger carpet area, +2% for the premium interior design, and -3% for the missing swimming pool. Adding these figures together (4 + 2 - 3) results in a total net adjustment of positive three percent.

82. (D) I, II, III, IV, and V
Enterprise value is a comprehensive measure of a company's total worth. It is calculated by summing the market value of equity, all short-term and long-term debt, non-controlling interests, and capital lease obligations. Cash and cash equivalents are then subtracted from this total because they are non-operating assets that effectively reduce the net cost of acquiring the entire business enterprise from its owners.

83. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Inflation causes the purchasing power of currency to decline over time, making historical costs recorded years ago unrepresentative of current market prices. Because book value is based on these original acquisition costs minus accumulated depreciation, it fails to account for the rising replacement costs of assets in an inflationary environment. This leads to a growing gap between a firm's accounting net worth and its real value.

84. (C) Expected sale price less expenses for packaging and selling costs.
Under the replacement cost modification, finished goods inventory should be valued at its expected selling price minus the costs related to packaging and selling. This method reflects the net realizable value of the inventory, accounting for the profit already embedded in the completed products. It provides a more accurate assessment of the cash the company expects to receive from its current stock of goods.

85. (D) Assertion (A) is false, but Reason (R) is true.
The liquidation value approach actually ignores organizational capital, treating a business merely as a collection of individual assets to be sold separately. However, the reason provided is a correct description of organizational capital, which consists of the valuable relationships and systems that make a going concern more than the sum of its parts. Because liquidation destroys these synergies, it typically underestimates firm value.

86. (D) I, II, III, and IV
Constructing financial forecasts requires a systematic approach beginning with selecting an appropriate explicit time period. Management then develops a strategic vision, which must be carefully translated into quantitative financial projections. The final step involves checking for internal consistency and alignment among all assumptions. This comprehensive process ensures that the resulting valuation is based on a logical and coherent view of future performance.

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CHAPTER 14
Discounted Cash Flow Valuation

May/June 2016

1. Who developed the H model for equity valuation?
(A) Gordon and Shapiro
(B) Modigliani and Miller
(C) Black and Scholes
(D) Fuller and Hsia

Oct/Nov 2009

2. Which of the following correctly describes the relationship between competitive advantage and the erosion of market position?
(A) Being the first mover is an advantage typically maintained for an extended time compared to brands.
(B) Financial or technological obstacles for competitors accelerate the rate at which advantage erodes.
(C) Capable management can slow the erosion of competitive advantage but cannot prevent it altogether.
(D) Legal barriers, such as patents, cause advantages to vanish as new competitors enter the market.

May/June 2023

3. How is the free cash flow to the firm (FCFF) conceptually defined?
(A) Cash flows available to equity investors after all debt obligations and preferred dividends are paid.
(B) The firm's economic profit stream discounted using the company's weighted average cost of capital.
(C) Total cash flow to all claim holders calculated prior to payments on debt and preferred dividends.
(D) Cash flows remaining after accounting for all mandatory interest and principal payments to creditors.

Oct/Nov 2018

4. Identify the INCORRECT statement regarding the applicability of the dividend discount model.
(A) The forecasting of dividends requires significantly fewer assumptions than forecasting free cash flows.
(B) Free cash flow predictions involve assumptions regarding taxes, capital expenditures, and depreciation.
(C) It overvalues companies that possess large cash balances which they do not distribute as dividends.
(D) The model results in overvaluation of companies that pay dividends higher than their cash flows suggest.

May/June 2007

5. How does the H model conceptually differ from the traditional two-stage growth model?
(A) The H model assumes a constant exceptional growth rate throughout the initial stage before abruptly dropping to a stable rate.
(B) The H model assumes the exceptional growth rate in the beginning stage decreases linearly over time until it achieves a stable rate.
(C) The H model incorporates a transition phase where the payout ratio changes linearly, while the two-stage model assumes a constant payout ratio.
(D) The H model eliminates the need to calculate a stable growth rate by using a perpetual linear decrease in earnings.

Oct/Nov 2025

6. In the evaluation of current abnormal or negative earnings, several sequential assessments are made. Which of the following is NOT a step or outcome in this specific pathway?
(A) Assessing if Survival is Possible.
(B) Evaluating the Type of Leverage as Static or Dynamic.
(C) Determining if Margin Adjustment is Needed if survival is possible.
(D) Estimating Liquidation Value if survival is not possible and the firm is not overburdened with debt.

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(D) For businesses experiencing rapid development and substantial payouts requiring continuous linear degradation.

Oct/Nov 2017

34. Evaluate the following statements regarding the applicability of the dividend discount model:

I. The dividend discount model typically results in an overvaluation of companies that pay dividends at a rate that is higher than their cash flows would suggest.

II. A prediction of free cash flow requires a smaller number of assumptions than the forecasting of dividends.

Which of the following is correct?

(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, and Statement II is false.
(D) Statement I is false, and Statement II is true.

May/June 2008

35. Match the conditions from cash flow estimation criteria in List I to the corresponding model outcome in List II.

List I: (Conditions)

P. Possible to estimate Cash Flows → Yes → Static Leverage
Q. Possible to estimate Cash Flows → Yes → Dynamic Leverage
R. Possible to estimate Cash Flows → No
S. Focus of basic estimation

List II: (Model Outcome)

1. Free Cash Flow to Firm
2. Determines the base model path based on predictability of cash flows.
3. Free Cash Flow to Equity
4. Use Dividend Discount Model

(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-3, R-2, S-4
(C) P-4, Q-1, R-3, S-2
(D) P-3, Q-4, R-1, S-2

Oct/Nov 2013

36. Consider the following statements regarding estimating growth patterns:

I. Companies with stable growth report earnings and revenue growth that is significantly faster than the nominal growth rate of the economy.

II. Moderate growth companies have earnings and revenue growing at a rate just slightly faster than the economy's nominal growth rate.

III. The steady state models that assume constant growth provide accurate estimates of value for businesses growing at a stable rate.

Which combination of statements is correct?

(A) II and III only
(B) I and II only
(C) I and III only
(D) I, II, and III

May/June 2015

37. When establishing the cost of equity, how should the risk of an investment be primarily perceived?

(A) Perspective of a diversified marginal investor most likely to be trading the company's assets.
(B) Perspective of a short-term speculator seeking to exploit temporary and small market inefficiencies.
(C) Perspective of the company's management evaluating the internal hurdle rates for new projects.
(D) Perspective of debt holders assessing the probability of default on all principal payments.

Oct/Nov 2012

38. Match the DDM applicability feature in List I with its consequence in List II.

List I: (DDM Feature)

P. Forecasting dividends
Q. Smoothed dividend policy
R. Firms with large retained cash balances
S. Firms paying dividends higher than cash flows

List II: (Consequence)

1. Results in undervaluation because the equity value should reflect claims on cash levels.
2. Results in overvaluation as they will have to close the deficit by issuing debt or stock.
3. Requires a smaller number of assumptions compared to free cash flows.
4. Makes the valuation more reliable and likely to be stable over time.

(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-1, R-4, S-2
(C) P-1, Q-2, R-3, S-4
(D) P-3, Q-4, R-1, S-2

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free from all bias.

(C) Management estimates are universally considered the most objective source for predicting growth.

(D) While investors agree on discount rates, they disagree over growth rates for all cash inflows.

Oct/Nov 2022

14. When selecting a growth pattern, why are some competitive advantages likely to vanish suddenly rather than gradually over time?

(A) Advantages from well-known brand names are more challenging to overcome and disappear due to forces.

(B) Advantages from economies of scale are eroded quickly as new competitors slowly join the open market.

(C) Advantages from legal barriers, such as patents, vanish when the legal impediments are removed.

(D) Management competence ensures that financial and technological barriers are eliminated quite abruptly.

May/June 2018

15. Higher expected growth of a company can come from several broad competitive advantages. Which of the following is generally NOT considered a source of such competitive advantage?

(A) Brand name

(B) Reduced costs of manufacturing from economies of scale

(C) Legal barriers to entry such as licences or product patents

(D) Unrestricted access to risk-free government subsidies

Oct/Nov 2016

16. Which of the following defines the free cash flow to equity (FCFE)?

(A) Cash flows remaining after meeting nonequity claims and reinvestments to sustain projected growth.

(B) Total cash flow available to all claim holders before payments on debt and preferred dividends are made.

(C) After-tax operating income excluding the specific net investment required to maintain long-term growth.

(D) Dividends paid to shareholders plus interest and principal payments made to all corporate debt holders.

May/June 2014

17. Which of the following statements about dividend discount models is INCORRECT?

(A) The H model assumes exceptional growth remains constant before dropping instantly to a stable rate.

(B) The zero growth model assumes that the dividend per share stays the same from one year to the next.

(C) The constant growth model assumes the dividend paid out per share increases at a fixed annual rate.

(D) The two-stage model postulates that exceptional growth lasts for years before the stable rate starts.

Oct/Nov 2007

18. In the continuous growth model, what formula is used to calculate the value of a share assuming a fixed growth rate (g)?

(A) $P_0 = D_1 / (r - g)$

(B) $P_0 = D_0 / (r - g)$

(C) $P_0 = D / r$

(D) $P_0 = D_1 \times (1 + g) / r$

May/June 2025

19. Which of the following accurately describes a specific discounted cash flow model?

(A) The APV model discounts the levered equity cash flow using the weighted average cost of capital.

(B) The Enterprise DCF Model applies a discount rate equal to the cost of equity to the firm's FCFF.

(C) The Equity DCF Model ignores the cost of equity and relies exclusively on the unlevered capital.

(D) It adds invested capital to the discounted economic profit stream using the cost of capital.

Oct/Nov 2019

20. What is a significant conceptual drawback of the dividend discount model regarding companies that amass significant cash balances?

(A) It undervalues firms because it ignores the shareholders' stake in the retained cash balances.

(B) It results in an overvaluation because

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May/June 2012

7. What is the most accurate representation of "intrinsic value" in the context of discounted cash flow valuation?
(A) The current trading price in the open market, representing the equilibrium between supply and demand.
(B) The value estimated by a neutral analyst using expected cash flows and an appropriate discount rate.
(C) The value derived from the historical cost and replacement value of the asset's underlying features.
(D) The value determined by comparing the asset to industry peers using specific relative valuation multiples.

Oct/Nov 2014

8. Which of the following statements is correct regarding the foundational principles of valuation?
(A) The vast majority of professional valuations done in the real world are discounted cash flow models.
(B) It is the basis upon which all other techniques, including relative valuations, are constructed.
(C) It is normal practice to start with option pricing models before applying DCF valuation to an asset.
(D) Lower discount rates are consistently applied to riskier assets to account for market volatility.

May/June 2019

9. Which of the following statements regarding the selection criteria for discounted cash flow models is INCORRECT?
(A) If the present growth rate is less than the economy's growth rate, use the Stable Growth Model.
(B) Transition to the DDM is mandated regardless of advantage if growth equals economic growth.
(C) If growth is higher than the economy and advantage is short-lived, use the Two Stage Model.
(D) If growth is higher than the economy and advantage is long-lived, use the Three Stage Model.

Oct/Nov 2006

10. Which discounted cash flow model discounts the unlevered equity cash flow at the unlevered cost of equity and adds the discounted value of the interest tax shield?
(A) Enterprise DCF Model
(B) Equity DCF Model
(C) Adjusted Present Value (APV) Model
(D) Economic Profit Model

May/June 2021

11. The three-stage dividend discount model presupposes three distinct periods of growth. Which of the following is NOT a characteristic of this model?
(A) An initial period of stable high growth lasting for a specific duration of the company's life.
(B) A second period of growth that decreases in a linear fashion until reaching a stable growth rate.
(C) A third era of steady low growth that continues indefinitely once the transition phase is over.
(D) A strict limitation requiring the payout ratio to remain constant across all time intervals.

NODIA

Oct/Nov 2010

12. How are companies classified if they are considered to have "moderate growth"?
(A) Earnings and revenue growth that is consistently equal to or lower than the nominal growth of the economy.
(B) Earnings expanding at a rate that is significantly faster than the nominal growth rate of the economy.
(C) Earnings growing slightly faster than the economy, typically within 8-10 percent of the nominal rate.
(D) Expected growth that drops to a stable rate after a specific period of competitive advantage is over.

May/June 2005

13. Which of the following statements is correct regarding estimating future growth from professional consensus sources?
(A) Surveys show that anticipated growth rates for cash flows usually fall within a narrow band.
(B) Using consensus estimates of growth produced by others who follow the firm is

May/June 2020

27. In the context of categorizing growth patterns, businesses are divided into three distinct categories based on their rate of expansion. Which of the following is NOT one of these categories?

(A) Companies with exponentially decaying growth independent of the economy's nominal growth rate.

(B) Companies with stable growth equal to or lower than the nominal growth rate of the economy.

(C) Companies with moderate growth that is just slightly faster than the economy's nominal growth rate.

(D) High-growth companies expanding at a rate significantly faster than the nominal growth rate of the economy as a whole.

Oct/Nov 2015

28. If it is possible to estimate cash flows and the leverage is dynamic, which model is indicated for valuation?

(A) Free Cash Flow to Firm

(B) Free Cash Flow to Equity

(C) Dividend Discount Model

(D) Economic Profit Model

May/June 2013

29. Which of the following statements regarding the estimation of expected cash flows is INCORRECT?

(A) The dividend is the only source of cash flow that an equity investor receives in the literal sense.

(B) The FCFE accounts for cash flows left over after meeting claims and necessary reinvestments.

(C) Estimating cash flows prior to debt payments is more complex than adding FCFE to debt cash flows.

(D) The FCFF can be estimated by taking after-tax operating income and removing the net investment.

Oct/Nov 2021

30. Why does a smoothed dividend policy make the dividend discount model conceptually appealing?

(A) It ensures that dividends accurately reflect the significant cash balances accumulated by the company.

(B) It eliminates the need to estimate a discount rate, significantly simplifying the valuation process.

(C) It aligns the company's nominal growth rate directly with the economy's growth rate in all conditions.

(D) Smoothed dividends are reliable despite earnings uncertainty, leading to more stable valuations.

May/June 2024

31. Consider the following stages of dividend payout ratio progression in a three-stage model and arrange them in the typical order of progression:

I. The payout ratio transitions linearly over a specific time frame.

II. The payout ratio remains unchanged at a lower percentage during the high growth era.

III. The payout ratio stabilizes at a higher constant percentage throughout the steady growth period.

(A) I, II, III

(B) II, III, I

(C) II, I, III

(D) III, I, II

Oct/Nov 2008

32. Which of the following pairs incorrectly matches a discounted cash flow model to the discount rate it predominantly uses?

(A) Enterprise DCF Model – Weighted average cost of capital applied to the whole firm.

(B) Free Cash Flow to Firm Model – Risk-free rate without any market risk premium.

(C) Equity DCF Model – Cost of equity applied to the projected free cash flow to equity.

(D) Adjusted Present Value Model – Unlevered cost of equity used to discount cash flows.

May/June 2006

33. When is the two-stage discounted cash flow model considered most appropriate for capturing changes in the underlying features of a firm?

(A) For businesses that are growing at a perfectly stable rate equivalent to inflation.

(B) For businesses that are developing at a rate considered to be moderate.

(C) For businesses whose expected growth comes from general sources of growth that decrease gradually as new competitors enter the market.

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shareholders can make a direct claim on these cash levels.
(C) It forces companies to close the deficit by issuing more debt or stock to maintain the dividend payout.
(D) It requires complex assumptions regarding net operating profit after taxes and capital expenditures.

May/June 2009

21. The Adjusted Present Value (APV) Model involves specific components to arrive at its valuation. Which of the following is NOT utilized in the APV model?
(A) The estimated unlevered equity cash flow for the asset.
(B) The estimated unlevered cost of equity for the firm.
(C) Weighted average cost of capital applied to the firm's FCFF.
(D) The discounted value of the interest tax shield on debt.

Oct/Nov 2011

22. What weights should be applied when evaluating an existing corporation to determine the cost of capital?
(A) The historical book values of the company's debt and equity.
(B) The current market values of the company's debt and equity.
(C) The target weights established by the company's management for future financing.
(D) The equal weighting of debt and equity to ensure a neutral valuation.

May/June 2010

23. What is the fundamental philosophical justification for persevering in estimating intrinsic value using discounted cash flow valuation despite high uncertainty?
(A) Intrinsic value accurately reflects the current relative pricing of all comparable peers in the market.
(B) Option pricing models cannot be applied unless the DCF valuation perfectly matches current market prices.
(C) The DCF method automatically eliminates variations between actual returns and predicted equity returns.
(D) Markets make errors, but prices eventually align with intrinsic value despite initial differences.

Oct/Nov 2024

24. Identify the INCORRECT statement regarding the various discounted cash flow models.
(A) The Enterprise DCF model uses a discount rate equal to the weighted average cost of capital.
(B) The APV model estimates the value of unlevered cash flow by adding the interest tax shield.
(C) The dividend discount model considers the cost of equity when discounting the dividend stream.
(D) The Equity DCF model is limited to FCFE as dividends are irrelevant to final equity valuation.

May/June 2017

25. Which statement accurately describes the treatment of risk and cost of equity?
(A) The cost of equity is determined solely by default risk associated with financial obligations.
(B) Non-diversifiable market risk should be used to estimate discount rates for that investment.
(C) Expected return is calculated by subtracting a risk premium from the risk-free investment return.
(D) Risk in an investment should be perceived through the perspective of an undiversified investor.

Oct/Nov 2005

26. In the context of discount rates, what does "default risk" refer to?
(A) The risk derived from the observed variation of actual returns compared to predicted returns on equity.
(B) The non-diversifiable market risk that the marginal investor faces when trading a specific investment.
(C) The degree of market risk associated with the calculation of the cost of equity for a firm's projects.
(D) The possibility that an entity may fail to fulfil a financial obligation like interest or principal.

NODIA

May/June 2011

39. Evaluate the following statements regarding the cost of capital:

I. When evaluating an existing corporation, analysts who utilise book value weights go against the fundamental concept of valuation regarding fair value indifference.

II. The cost of debt needs to include a default premium or spread to account for the risk of the debt going into default.

Which of the following is correct?

(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, and Statement II is false.
(D) Statement I is false, and Statement II is true.

Oct/Nov 2020

40. Match the risk and return concepts in List I with their features in List II.

List I: (Risk and Return Concepts)

P. Default Risk
Q. Cost of Debt
R. Market Risk
S. Cost of Capital Weights

List II: (Features)

1. Should be determined by the current market values of the company's debt and equity.
2. The possibility of breaking a promise to fulfil a financial obligation.
3. The non-diversifiable risk used to estimate discount rates for equity.
4. Reflects the possibility of default and is generally lower after taxes.

(A) P-4, Q-2, R-1, S-3
(B) P-2, Q-1, R-4, S-3
(C) P-3, Q-4, R-2, S-1
(D) P-2, Q-4, R-3, S-1

May/June 2022

41. Consider the following statements regarding the advantages of the Dividend Discount Model:

I. It is easy to understand and has a natural appeal since dividends are the only source of cash flows shareholders literally receive.

II. It completely eliminates the risk of undervaluing companies that hoard significant cash balances.

III. Dividends are often more reliable than earnings and reinvestments because companies typically implement a smoothed dividend policy.

Which combination of statements is correct?

(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

Oct/Nov 2023

42. Why does numerous analysts continue to find value in dividend discount models despite often finding them conservative?

(A) They inherently overvalue companies with cash balances, providing optimistic targets for analysts.
(B) They eliminate the necessity of estimating the cost of equity completely for all firm types.
(C) Concepts in dividend models apply when looking at alternative discounted cash flow models.
(D) They are the only models capable of integrating the specific interest tax shield on debt levels.

May/June 2016

43. In the evaluation of current earnings for valuation, which of the following pairs correctly matches a condition to its subsequent decision pathway?

(A) Current Earnings are Positive & Normal – Use Normalised Earnings in place of Current Earnings.
(B) Firm Overburdened With Debt (Yes) – Value Equity as an option to Liquidate.
(C) Margin Adjustment Needed (No) – Estimate Liquidation Value.
(D) Survival is Possible (Yes) – Firm Overburdened With Debt.

Oct/Nov 2009

44. Match the present growth rate conditions in List I with the corresponding action in List II.

List I: (Growth Conditions)

P. Present Growth Rate < Economy's Growth Rate
Q. Present Growth Rate > Economy's Growth Rate → Competitive Advantage Short Lived (Yes)
R. Present Growth Rate > Economy's Growth Rate → Competitive Advantage Short Lived (No)
S. Foundation of growth rate phase criteria

List II: (Action)

1. Use Two Stage Model

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May/June 2005

55. Which of the following pairs accurately links a dividend valuation model to its corresponding variable or component?

(A) H Model – Uses 'H' as half the duration for the growth rate to level out to stable growth.

(B) Two Stage Model – Relies exclusively on the unlevered cost of equity for all calculations.

(C) Zero Growth Model – Assumes a constant growth rate 'g' that matches the annual inflation rate.

(D) Three Stage Model – Assumes the dividend payout ratio is strictly identical in all three phases.

Oct/Nov 2022

56. Which of the following best describes the core mathematical structure of the right-hand side of the H model equation?

(A) First term is normal growth value; second is the premium from anomalous growth.

(B) It represents a geometric progression summing all dividends without distinctions.

(C) First term is the terminal share price; second values a growing cash annuity.

(D) It utilizes the weighted average cost of capital to discount economic profit.

May/June 2018

57. Consider the following statements about discounted cash flow valuation:

I. It serves as the basis upon which all other valuation techniques, including relative valuations, are constructed.

II. It assumes that the value of an asset is equal to the sum of the asset's predicted future cash flows, expressed as a present value.

III. It applies lower discount rates to riskier assets to compensate for market uncertainty.

Which combination of statements is correct?

(A) I and II only

(B) II and III only

(C) I and III only

(D) I, II, and III

Oct/Nov 2016

58. Match the growth category in List I with its descriptive threshold in List II.

List I: (Growth Category)

P. Stable growth

Q. Moderate growth

R. High-growth

S. Steady state model applicability

List II: (Descriptive Threshold)

1. Earnings and revenue grow just slightly faster than the economy's nominal growth rate.
2. Expanding at a rate significantly faster than the nominal growth rate of the economy.
3. Accurate for businesses that are growing at a stable, constant rate.
4. Earnings and revenue growth is equal to or lower than the economy's nominal growth rate.

(A) P-4, Q-1, R-2, S-3

(B) P-1, Q-4, R-3, S-2

(C) P-4, Q-2, R-1, S-3

(D) P-3, Q-1, R-4, S-2

May/June 2014

59. Evaluate the following statements regarding the estimation of future growth:

I. In a tight real estate market with low vacancy rates, the anticipated growth rate of rentals may be higher than the anticipated rate of inflation.

II. If rent control is anticipated soon, the predicted growth rate of cash flows over time will likely increase due to guaranteed minimum rents.

Which of the following is correct?

(A) Both Statement I and Statement II are true.

(B) Both Statement I and Statement II are false.

(C) Statement I is true, and Statement II is false.

(D) Statement I is false, and Statement II is true.

Oct/Nov 2007

60. Match the valuation model in List I to its distinct characteristic in List II.

List I: (Valuation Model)

P. Enterprise DCF Model

Q. Adjusted Present Value (APV) Model

R. Economic Profit Model

S. Equity DCF Model

List II: (Distinct Characteristic)

1. Discounts unlevered equity cash flow at unlevered cost of equity and adds discounted tax shield.
2. Implemented via dividend discount model or free cash flow to equity model.
3. Discounts economic profit stream using WACC and adds currently invested capital.
4. Applies WACC to the free cash flow to the firm.

NODIA

Oct/Nov 2014

50. Match the Dividend Discount Model variant in List I with its structural assumption in List II.

List I: (Model Variant)

P. Constant Growth Model
Q. Zero Growth Model
R. H Model
S. Two Stage Model

List II: (Structural Assumption)

1. Exceptional growth rate decreases linearly over time until achieving a stable rate.
2. Exceptional growth lasts for a set number of years, abruptly followed by a usual growth rate.
3. Dividend per share stays the exact same from year to year.
4. Dividend paid out per share increases at a fixed, perpetual rate.

(A) P-3, Q-4, R-2, S-1
(B) P-4, Q-1, R-3, S-2
(C) P-4, Q-3, R-1, S-2
(D) P-1, Q-2, R-4, S-3

May/June 2019

51. Consider the following statements about the Three Stage Model:

I. It presupposes an initial time of stable high growth, a second period of linearly decreasing growth, and a third era of steady low growth.
II. It places severe limitations on the payout ratio, demanding it remains unchanged across all three time intervals.
III. It is considered an extremely generic model because it does not place any limitations on the payout ratio.

Which combination of statements is correct?

(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

Oct/Nov 2006

52. Arrange the following conceptual steps involved in computing the intrinsic value using the Two Stage Model in the correct sequential order:

I. Calculate the present value of the terminal price of the share at the end of the extraordinary growth period.
II. Determine the expected dividends for each year during the extraordinary growth period using the exceptional growth rate.
III. Add the present value of the growing annuity to the present value of the terminal share price.
IV. Discount the expected dividends during the extraordinary growth period to their present value.

(A) IV, II, I, III
(B) I, II, III, IV
(C) II, I, IV, III
(D) II, IV, I, III

May/June 2021

53. Match the sources of competitive advantage in List I with their erosion characteristics in List II.

List I: (Sources of Competitive Advantage)

P. Product Patents
Q. Well-known brand name
R. First mover advantage
S. Management competence

List II: (Erosion Characteristics)

1. Slows the erosion of advantage over time but cannot prevent it altogether.
2. Appears to be lost far more quickly.
3. More challenging to overcome, likely creating growth for an extended length of time.
4. Vanishes suddenly when the legal impediments to entry are removed.

(A) P-2, Q-3, R-4, S-1
(B) P-3, Q-4, R-1, S-2
(C) P-4, Q-3, R-2, S-1
(D) P-4, Q-1, R-3, S-2

Oct/Nov 2010

54. Evaluate the following statements regarding the H model:

I. The H model postulates that the dividend pay-out rate and the cost of equity will fluctuate significantly over the course of time alongside the fluctuating growth rates.
II. The H model is considered more realistic than the two-stage model because it predicts the growth rate will gradually slow down over time rather than suddenly dropping.

Which of the following is correct?

(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, and Statement II is false.
(D) Statement I is false, and Statement II is true.

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2. Use Three Stage / n-stage Model
3. Evaluating present growth relative to economic growth and competitive duration
4. Use Stable Growth Model

(A) P-1, Q-4, R-3, S-2
(B) P-4, Q-2, R-1, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-1, R-2, S-3

May/June 2023

45. Consider the following statements regarding the estimation of discount rates:

I. The expected return on an investment is calculated by adding a risk premium to the return gained from a risk-free investment.
II. The risk premium added should be proportional to the degree of market risk associated with the investment.
III. The cost of equity is calculated strictly based on the historical dividend yields of the company without accounting for future market risk.

Which combination of statements is correct?

(A) I and III only
(B) II and III only
(C) I and II only
(D) I, II, and III

Oct/Nov 2018

46. If a real estate market is tight with low vacancy rates, what is the most likely expectation regarding the anticipated growth rate of rentals?

(A) It will exactly mirror the historical growth rate reported by the firm over the previous decade.
(B) It may be higher than inflation until market shortages are eventually eliminated by new supply.
(C) It will decrease sharply because investors consistently apply rent controls in all tight markets.
(D) It will remain equal to or lower than the nominal growth rate of the economy regardless of inflation.

May/June 2007

47. Evaluate the following statements regarding the Adjusted Present Value (APV) Model:

I. The APV model discounts the levered equity cash flow at the weighted average cost of capital.
II. The APV model adds the discounted value of the interest tax shield on debt to arrive at its final valuation.

Which of the following is correct?

(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, and Statement II is false.
(D) Statement I is false, and Statement II is true.

Oct/Nov 2025

48. Match the cash flow definitions in List I with their descriptions in List II.

List I: (Cash Flow Definitions)

P. Dividend
Q. Free Cash Flow to Equity (FCFE)
R. Free Cash Flow to the Firm (FCFF)
S. After-tax operating income

List II: (Descriptions)

1. The starting point used to estimate cash flows prior to payments on debt and preferred dividends.
2. The cash flow left over after meeting nonequity claims and required reinvestment to sustain growth.
3. The only literal source of cash flow that an equity investor receives from a publicly traded company.
4. The total cash flow to all claim holders, calculated prior to debt payments by removing net investment from operating income.

(A) P-2, Q-3, R-1, S-4
(B) P-3, Q-2, R-4, S-1
(C) P-3, Q-4, R-2, S-1
(D) P-4, Q-2, R-3, S-1

May/June 2012

49. Which of the following pairs incorrectly matches a method of estimating future growth with its associated characteristic?

(A) Management estimates – The only method guaranteed to be completely neutral and devoid of estimation errors.
(B) Historical growth rate – Might not provide much of an indication of growth in the future.
(C) Consensus estimates by analysts – Subject to inherent bias.
(D) Surveys of investor expectations – Expected growth rates often fall within a rather narrow band despite disagreements over discount rates.

NODIA

(A) P-1, Q-4, R-2, S-3
(B) P-4, Q-1, R-3, S-2
(C) P-4, Q-3, R-1, S-2
(D) P-2, Q-1, R-4, S-3

May/June 2025

61. Consider the following statements regarding risk, discount rates, and growth sources:

I. Default risk refers to the possibility of a person or organisation breaking a promise to pay interest or principal.
II. The cost of debt reflects the possibility of default and is generally lower after taxes.
III. The risk of an investment should be perceived through the eyes of the marginal investor.
IV. A well-known brand name is a competitive advantage that typically vanishes suddenly.
V. Entry barriers, whether financial or technological, slow down the rate at which a company's market advantage erodes.

Which combination of statements is correct?
(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, II, III, and V only
(D) I, III, IV, and V only

Oct/Nov 2019

62. The following questions consist of two statements—Assertion (A) and Reason (R). Answer these questions selecting the appropriate option given below:
Assertion (A): The forecasting of dividends using the dividend discount model requires a greater number of assumptions than forecasting free cash flows.
Reason (R): Predicting free cash flow involves multiple assumptions regarding net operating profit after taxes, capital expenditures, depreciation, and working capital.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2009

63. Evaluate the following statements regarding Various Discounted Cash Flow Models:

I. The Enterprise DCF model applies the weighted average cost of capital to the free cash flow to the firm.
II. The Equity DCF model can be implemented using either the dividend discount model or the free cash flow to equity model.
III. The APV model ignores the interest tax shield completely to avoid double counting.
IV. The Economic Profit model adds the currently invested capital to the economic profit stream discounted by the weighted average cost of capital.

Which combination of statements is correct?
(A) I, II, and IV only
(B) I, II, and III only
(C) II, III, and IV only
(D) I, III, and IV only

Oct/Nov 2011

64. Read the following information and answer the questions that follow:
Beta Technologies currently pays a dividend of Rs. 6 per share. It is anticipated to enjoy an above-normal growth rate of 20% for the next 5 years. After 5 years, the growth rate will abruptly fall and stabilise at 10% indefinitely. Equity investors require a return of 15%.
To calculate the intrinsic value using the two-stage model, what is the expected dividend at the end of year 1 (D1)?
(A) Rs. 6.00
(B) Rs. 6.60
(C) Rs. 7.20
(D) Rs. 8.40

May/June 2010

65. The following questions consist of two statements—Assertion (A) and Reason (R). Answer these questions selecting the appropriate option given below:
Assertion (A): The cost of debt for most companies will be lower after taxes are taken into account.
Reason (R): Interest expenses are deductible from taxable income.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.

NODIA

(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

66. Read the following information and answer the questions that follow:

Gamma Corp presently pays a dividend of Rs. 2.00. The company is currently experiencing a high growth rate of 25%. This growth rate is expected to decrease linearly over the course of 8 years, after which it will level off at 9%. Investors require a return of 14%.

What is the value of 'H' to be used in the H model valuation equation for Gamma Corp?

(A) 4 years
(B) 8 years
(C) 14 years
(D) 2 years

May/June 2017

67. Consider the following statements regarding the estimation of expected cash flows:

I. Financial models using dividends as cash flows are referred to as dividend discount models.
II. Free cash flow to equity (FCFE) is calculated before meeting the cash flow claims of nonequity investors.
III. Free cash flow to the firm (FCFF) represents the total cash flow to all claim holders in the company.
IV. FCFF can be estimated by taking after-tax operating income and removing the net investment required to maintain growth.

Which combination of statements is correct?

(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

Oct/Nov 2005

68. The following questions consist of two statements—Assertion (A) and Reason (R). Answer these questions selecting the appropriate option given below:

Assertion (A): The APV model results in an estimate of the present value of the levered equity cash flow.

Reason (R): The APV model adds the discounted value of the interest tax shield on debt to the discounted value of the unlevered equity cash flow.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2020

69. If Delta Corp alters its policy and decides to maintain the dividend constant at Rs. 4 per share indefinitely with zero growth, what would be the revised fair price of the share?

(A) Rs. 28.57
(B) Rs. 50.00
(C) Rs. 66.67
(D) Rs. 33.33

Oct/Nov 2015

70. Evaluate the following statements regarding the application of the three-stage dividend discount model:

I. The model can handle changes in the dividend payout ratio during the transition phase.
II. The model allows for the cost of equity to reduce linearly during the transition period.
III. The terminal value of the shares at the end of the transition period must be discounted back to the present value.
IV. The total intrinsic value is obtained by adding the present value of dividends in the high growth and transition phases to the present value of the terminal value.
V. The model is severely restricted because it cannot be applied to companies paying substantial payouts.

Which combination of statements is correct?

(A) II, III, IV, and V only
(B) I, III, IV, and V only
(C) I, II, III, and IV only
(D) I, II, IV, and V only

May/June 2013

71. What is the premium value derived from the anomalous (exceptional) growth rate in Gamma Corp's H model valuation?

(A) Rs. 25.60
(B) Rs. 15.00
(C) Rs. 12.80
(D) Rs. 8.00

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Oct/Nov 2021

72. Evaluate the following statements regarding the H Model:

I. It was developed by Fuller and Hsia.
II. It assumes the earnings growth rate starts high and immediately drops to a stable rate without any transition period.
III. It assumes the dividend payment rate and the cost of equity will not change over the course of time.
IV. The parameter 'H' represents one half of the duration during which the initial high growth rate levels out to the stable growth rate.

Which combination of statements is correct?
(A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, and IV only

May/June 2024

73. The following questions consist of two statements—Assertion (A) and Reason (R). Answer these questions selecting the appropriate option given below:
Assertion (A): The dividend discount model has a tendency to result in an undervaluation of companies that amass significant cash balances without paying them out.
Reason (R): Shareholders have a stake in these cash balances as owners, but the model only reflects the claims based on distributed dividends.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2008

74. The following questions consist of two statements—Assertion (A) and Reason (R). Answer these questions selecting the appropriate option given below:
Assertion (A): When determining the cost of capital, analysts ought to universally utilise book value weights of debt and equity to comply with the fundamental concept of valuation.
Reason (R): Valuation principles state that at a fair value, one ought to be indifferent between purchasing and selling an asset.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2006

75. What happens to the growth rate assumption immediately after year 5 in this specific two-stage model application?
(A) It decreases linearly over the next 5 years to 10%.
(B) It remains at 20% but the payout ratio alters significantly.
(C) It equates itself to the nominal growth rate of the economy regardless of the 10% estimation.
(D) It falls abruptly from 20% to the stable rate of 10%.

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Oct/Nov 2017

76. Consider the following statements regarding the criteria for selecting Discounted Cash Flow Models:

I. The fundamental branching question is "Is it possible to estimate Cash Flows?".
II. If it is NOT possible to estimate cash flows, the criteria directs the user to use the Dividend Discount Model.
III. If it IS possible to estimate cash flows, the next assessment is the "Type of Leverage".
IV. Under Type of Leverage, "Dynamic" leverage dictates the use of Free Cash Flow to Equity.

Which combination of statements is correct?
(A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, III, and IV

May/June 2008

77. While calculating the cost of debt for the cost of capital, what must Sigma Industries include and subsequently adjust for?
(A) Include the full cost of equity and adjust for historical depreciation of assets.
(B) Exclude default risk entirely as market value

17. (A) The H model assumes exceptional growth remains constant before dropping instantly to a stable rate.
The H model specifically assumes that the exceptional growth rate does not remain constant; rather, it decreases in a linear fashion from the initial high rate until it reaches the stable, long-term growth rate at the end of the transition period. The description of growth remaining constant before dropping instantly actually refers to the characteristics of a standard two-stage growth model.

18. (A) $P0 = D1 / (r - g)$
The constant growth model, or Gordon Growth Model, calculates the current value of a share by taking the expected dividend in the next period and dividing it by the difference between the required rate of return and the perpetual growth rate. This formula assumes that dividends will grow at a fixed, constant rate forever into the future for mature firms.

19. (D) It adds invested capital to the discounted economic profit stream using the cost of capital.
The economic profit model is a valuation approach that estimates a firm's value by summing its currently invested capital and the present value of its future economic profits. Economic profit is defined as the surplus earned over and above the cost of capital. These expected future profits are discounted using the firm's weighted average cost of capital to find value.

20. (A) It undervalues firms because it ignores the shareholders' stake in the retained cash balances.
A significant limitation of the dividend discount model is its focus on cash actually paid out to shareholders. For firms that accumulate large amounts of cash on their balance sheets without distributing it, the DDM will produce a valuation that is too low. It fails to capture the value of the cash reserves that still belong to the equity owners.

21. (C) Weighted average cost of capital applied to the firm's FCFF.
The Adjusted Present Value model calculates the value of the firm by separating the value of its operations from the value of its financing benefits. It uses the unlevered cost of equity to discount unlevered cash flows and then adds the value of tax shields. It does not utilize the weighted average cost of capital, which is the standard discount rate.

22. (B) The current market values of the company's debt and equity.
To calculate a firm's weighted average cost of capital correctly, analysts should use the current market values of debt and equity. Market values reflect the current cost of raising new capital in the proportions used by the firm. Using book values is considered incorrect because they are based on historical costs and do not represent contemporary financial or market reality.

23. (D) Markets make errors, but prices eventually align with intrinsic value despite initial differences.
The philosophical basis for using discounted cash flow valuation is the belief that market prices are not always efficient. While a company's price may deviate from its fundamental value due to noise or short-term sentiment, proponents of DCF believe that prices will eventually gravitate toward the intrinsic value estimated by looking at the long-term expected cash flow generation capability.

24. (D) The Equity DCF model is limited to FCFE as dividends are irrelevant to final equity valuation.
The equity DCF model is not limited solely to free cash flow to equity; it can also be implemented using the dividend discount model. Both approaches aim to value the equity of a firm by discounting the cash flows available to shareholders at the cost of equity. Dividends are a relevant, albeit often conservative, measure of those equity-side cash flows.

25. (B) Non-diversifiable market risk should be used to estimate discount rates for that investment.
In modern finance, the discount rate for equity should reflect only the non-diversifiable, or systematic, market risk. Diversifiable risks are ignored because a marginal investor is assumed to hold a well-diversified portfolio. The cost of equity represents the return required by these investors to compensate them for the risk that cannot be eliminated through diversification across multiple assets.

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May/June 2022

83. The following questions consist of two statements—Assertion (A) and Reason (R). Answer these questions selecting the appropriate option given below:
Assertion (A): It is worthwhile to persevere in estimating intrinsic value using discounted cash flow valuation even when valuing young companies with high uncertainty.
Reason (R): Markets occasionally make errors, and although market prices can differ from intrinsic value initially, an investor hopes the two will eventually align.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2023

84. Sigma Industries is restructuring its capital. Currently, the historical book value of its equity is Rs. 100 Crores, and its debt is Rs. 50 Crores. The current market value of its equity is Rs. 300 Crores, while the market value of its debt remains at Rs. 50 Crores.
According to fundamental valuation concepts, which weights should Sigma Industries apply to calculate its cost of capital?
(A) Equity weight: 66.67%, Debt weight: 33.33%
(B) Equity weight: 50.00%, Debt weight: 50.00%
(C) Equity weight: 85.71%, Debt weight: 14.29%
(D) Equity weight: 100.00%, Debt weight: 0.00%

May/June 2016

85. The following questions consist of two statements—Assertion (A) and Reason (R). Answer these questions selecting the appropriate option given below:
Assertion (A): The H model assumes that the exceptional growth rate in the beginning stage decreases linearly over time until it achieves a stable rate.
Reason (R): The H model operates under the presumption that the dividend payment rate and the cost of equity will frequently change alongside fluctuating growth rates.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2009

86. Evaluate the following statements regarding the Two Stage Model:
I. It postulates that exceptional growth will last for a set number of years, after which the usual growth rate takes over.
II. The current value of a growing annuity represents the first term in its foundational equation.
III. It assumes that the share will be practically worthless at the end of the exceptional growth period.
IV. It uses the terminal value (Pn) to represent the price of the equity share at the end of the extraordinary growth period.
Which combination of statements is correct?
(A) I, II, and III only
(B) I, II, and IV only
(C) II, III, and IV only
(D) I, III, and IV only

May/June 2023

87. Which variable dictates the length of the exceptional growth period in the two-stage model formula?
(A) r
(B) n
(C) g2
(D) Pn

Oct/Nov 2018

88. Evaluate the following statements regarding the applicability and criticisms of the Dividend Discount Model (DDM):
I. DDM's natural appeal lies in dividends being the only direct cash flow received by shareholders.
II. Forecasting dividends requires significantly more assumptions than forecasting free cash flows.
III. Smoothed dividend policies make DDM valuations generally more stable over time compared to cash flow-based valuations.
IV. DDM significantly undervalues companies that amass large cash balances instead of

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is known and adjust for dividend tax.
(C) Include a premium proportional to the non-diversifiable risk and adjust for inflation.
(D) Include a default spread and adjust for the tax deductibility of interest expenses.

Oct/Nov 2013

78. Evaluate the following concerning growth patterns and estimates:
I. Historical growth reported by a company is the most reliable indicator of its future growth.
II. Consensus estimates of growth from analysts may contain inherent bias.
III. In tight real estate markets with low vacancy, rental growth may outpace anticipated inflation.
IV. Stable growth companies grow at a rate equal to or lower than the nominal growth rate of the economy.
V. Moderate growth rates are generally defined as being within 8 to 10 percent of the economy's growth rate.
Which combination of statements is correct?
(A) I, II, III, and IV only
(B) I, III, IV, and V only
(C) I, II, IV, and V only
(D) II, III, IV, and V only

May/June 2015

79. The following questions consist of two statements—Assertion (A) and Reason (R). Answer these questions selecting the appropriate option given below:
Assertion (A): The applicability of the H model is restricted to companies that exhibit both rapid development and substantial payouts.
Reason (R): The model presumes that the dividend pay-out rate will remain unchanged during all stages of growth, making it unusable for companies paying zero dividends presently.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2012

80. The following questions consist of two statements—Assertion (A) and Reason (R). Answer these questions selecting the appropriate option given below:
Assertion (A): The steady state models that assume constant growth provide accurate estimates of value for businesses that are growing at a stable rate.
Reason (R): These companies report earnings and revenue growth that is equal to or lower than the nominal growth rate of the economy in which they operate.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2011

81. Using the H model formula, what is the value component of Gamma Corp based purely on the normal stable growth rate?
(A) Rs. 38.60
(B) Rs. 40.00
(C) Rs. 43.60
(D) Rs. 42.50

Oct/Nov 2020

82. Consider the following statements detailing inputs for discounted cash flow valuation:
I. The predicted cash flows in the future are a necessary input.
II. The discount rate must be suitable for the risk level associated with the cash flows.
III. The estimated cash flow growth rate is required.
IV. The estimated pattern of growth is a mandatory consideration.
V. The cost of capital must always rely on book value weights to guarantee compliance with valuation principles.
Which combination of statements is correct?
(A) I, II, III, and IV only
(B) I, III, IV, and V only
(C) II, III, IV, and V only
(D) I, II, III, IV, and V

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May/June 2021

95. In computing the terminal value of Omega Ltd's shares at the end of the 10th year (transition phase), which of the following inputs will be utilized?

(A) Year 11 EPS, 12% growth rate, 45% payout ratio, and a cost of equity of 14%.
(B) The initial growth rate of 30% and the corresponding initial payout ratio of 20%.
(C) The initial cost of equity of 18% applied to the expected dividend in year one.
(D) The average of the EPS over the first 10 years discounted at the risk-free rate.

Oct/Nov 2010

96. Suppose Nexus Ltd reports abnormal and negative current earnings, but analysts confirm that survival is possible and a margin adjustment is needed. According to standard evaluation criteria for distressed firms, what is the subsequent step?

Suppose Nexus Ltd reports abnormal and negative current earnings, but analysts confirm that survival is possible and a margin adjustment is needed. According to standard evaluation criteria for distressed firms, what is the subsequent step?

(A) Value Equity as an option to Liquidate
(B) Use Current Earning Base
(C) Estimate Liquidation Value directly without options
(D) Immediately apply the Stable Growth Model

May/June 2005

97. If analysts switch to the Zeta Corp APV Model to isolate the value of the leverage, how is the present value of the unlevered equity cash flow estimated?

(A) Discount unlevered equity cash flow at unlevered cost and add the interest tax shield.
(B) Discount levered equity cash flow at WACC and subtract the total market cost of debt.
(C) Add currently invested capital to the economic profit stream to get the total value.
(D) Evaluate the firm's equity as an option to liquidate based on its current earnings base.

Oct/Nov 2022

98. To obtain the present value of the terminal value calculated at the end of the 10th year for Omega Ltd, what specific discounting factor must be applied?

(A) The initial cost of equity of 18% raised to the power of 10 for all periods.
(B) Cumulated cost of equity in the 10th year reflecting the changing discount rates.
(C) The static cost of equity of 14% raised to the power of 10 for terminal value.
(D) The unadjusted nominal growth rate of the economy applied to the terminal price.

May/June 2018

99. Omega Ltd has an EPS of Rs. 12. In a 4-year high growth phase, earnings grow at 30% with a 20% payout. A 6-year transition phase follows where growth decreases linearly to 12% and payout increases linearly to 45%. Stable growth is 12% with a 45% payout. Cost of equity starts at 18% and drops linearly to 14% during transition.

How does the Three Stage Model accommodate Omega Ltd's payout ratio compared to the H Model?

(A) Three Stage Model strictly requires the payout ratio to remain at 20% forever in all phases.
(B) Both models allow for a linear transition in the payout ratio over the decay periods chosen.
(C) Three Stage Model drops the payout ratio abruptly at year 5, unlike the decay in the H model.
(D) Three Stage Model allows the payout ratio to change linearly; H model assumes it is static.

Oct/Nov 2016

100. How will the DDM likely interpret the value of Omicron Media, which pays dividends higher than its underlying cash flows?

(A) It will undervalue Omicron Media by heavily penalising the new debt issuance process.
(B) It will value Omicron Media perfectly by equating its nominal growth to the economy.
(C) It will automatically switch to the Free Cash Flow to Equity model to correct errors.
(D) It will result in overvaluation by projecting dividends without accounting for cash flows.

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paying them out as dividends.

V. DDM overvalues companies that pay dividends at a rate higher than their sustainable cash flows would suggest.

Which combination of statements is correct?

(A) I, II, III, and IV only
(B) I, III, IV, and V only
(C) II, III, IV, and V only
(D) I, II, IV, and V only

May/June 2007

89. An equity analyst is evaluating Delta Corp. The company is expected to pay a dividend of Rs. 4 per share one year from now. The management has assured that dividend payments are expected to grow consistently at 6% p.a. indefinitely. An institutional investor requires a 14% rate of return.

Based on the Constant Growth Model, what is the current fair price of Delta Corp's share?

(A) Rs. 28.57
(B) Rs. 50.00
(C) Rs. 66.67
(D) Rs. 40.00

Oct/Nov 2025

90. The following questions consist of two statements—Assertion (A) and Reason (R). Answer these questions selecting the appropriate option given below:

Assertion (A): Relying solely on a company's historical growth rate to predict future cash flows poses significant danger.

Reason (R): Growth in the past might not provide much of an indication of growth in the future due to changing market conditions and emerging competitors.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2012

91. Zeta Corp is highly leveraged. Analysts are debating whether to use the Enterprise DCF Model or the Adjusted Present Value (APV) Model.

If analysts proceed with the Enterprise DCF Model, how will they arrive at the firm's operating valuation?

(A) By discounting the expected dividend stream applying the specific cost of equity.
(B) By discounting the firm's FCFF using the weighted average cost of capital.
(C) By discounting the unlevered equity cash flow at the unlevered cost of equity.
(D) By subtracting the discounted interest tax shield from the economic profit stream.

Oct/Nov 2014

92. If Nexus Ltd overcomes its earnings slump and establishes a present growth rate that is less than the economy's growth rate, which model does the selection framework mandate?

(A) Three Stage Model
(B) Two Stage Model
(C) Stable Growth Model
(D) n-stage Model

May/June 2019

93. Nexus Ltd analysts cannot reliably estimate future free cash flows due to unpredictable capital requirements. However, Nexus Ltd has a long history of paying dividends.

Following the general framework for selecting valuation models, which model must the analysts utilise for Nexus Ltd?

(A) Free Cash Flow to Firm
(B) Free Cash Flow to Equity
(C) Economic Profit Model
(D) Dividend Discount Model

Oct/Nov 2006

94. Epsilon Retail has Rs. 500 Crores in cash and pays low dividends. Omicron Media pays dividends higher than its cash flows by issuing new debt.

What is the most likely outcome of valuing Epsilon Retail strictly using the Dividend Discount Model (DDM)?

(A) It will be significantly overvalued because the model inflates small dividend payments.
(B) It will be correctly valued as the model accounts for all cash generated internally.
(C) It will be undervalued as the model ignores cash balances that shareholders stake.
(D) It will automatically adjust the dividend growth rate to match the free cash flow.

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peers, are implicitly grounded in the principles of cash flow, growth, and risk that DCF models explicitly define. Understanding the drivers of DCF is essential for correctly interpreting and applying any valuation metric or investment analysis.

9. (B) Transition to the DDM is mandated regardless of advantage if growth equals economic growth.
Selection criteria for discounted cash flow models depend on the firm's growth characteristics and the predictability of its cash flows. While a firm with growth equal to the economy might use a stable growth model, the choice between the dividend discount model and other free cash flow models depends on whether dividends accurately reflect the firm's actual cash generation.

10. (C) Adjusted Present Value (APV) Model
The Adjusted Present Value model calculates the value of a firm by first valuing it as if it were entirely equity-financed. This involves discounting unlevered cash flows at the unlevered cost of equity. The value added by debt financing, specifically the present value of the interest tax shields, is then added to this unlevered value to find total worth.

11. (D) A strict limitation requiring the payout ratio to remain constant across all time intervals.
The three-stage dividend discount model is designed to be highly flexible, allowing for an initial high growth phase, a transition phase with linear growth decay, and a final stable phase. Unlike simpler models, it does not mandate a constant payout ratio across all stages. Instead, it can accommodate an increasing payout ratio as growth slows and reinvestment needs naturally diminish.

12. (C) Earnings growing slightly faster than the economy, typically within 8-10 percent of the nominal rate.
Companies classified as having moderate growth are those whose earnings and revenue expand at a rate slightly exceeding the nominal growth rate of the economy. Typically, this growth falls within a narrow band, such as eight to ten percent. These firms are often valued using two-stage models to capture the transition from slightly elevated growth toward long-term perpetual stability.

13. (A) Surveys show that anticipated growth rates for cash flows usually fall within a narrow band.
When analysts use professional consensus sources for growth, they often find that anticipated growth rates for cash flows cluster within a relatively narrow range. While investors may disagree significantly on the appropriate discount rates to apply, there is often more convergence regarding the expected expansion of cash inflows, reflecting a shared understanding of industry trends and company potential.

14. (C) Advantages from legal barriers, such as patents, vanish when the legal impediments are removed.
Certain competitive advantages are tied to specific legal protections, such as patents or licenses. These barriers create a "cliff" effect where the advantage exists fully until the legal protection expires, after which it vanishes almost immediately as competitors enter the market. This contrasts with advantages like brand loyalty or economies of scale, which tend to erode more gradually over time.

15. (D) Unrestricted access to risk-free government subsidies
Competitive advantage arises from unique firm characteristics such as strong brand names, economies of scale, or legal protections like patents. While government subsidies can provide financial support, they are generally not considered a fundamental, sustainable source of high expected growth unless they are linked to specific operational efficiencies or exclusive market positions that competitors cannot replicate through normal market activity.

16. (A) Cash flows remaining after meeting nonequity claims and reinvestments to sustain projected growth.
Free cash flow to equity represents the residual cash available to shareholders after the firm has covered all its obligations. This includes paying operating expenses, taxes, and interest, as well as making the necessary net capital expenditures and working capital investments to sustain growth. It is the literal cash available to be paid out as dividends to the firm's owners.

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ANSWERS<answer>

1. (D) Fuller and Hsia
The H model is a specialized version of the dividend discount model designed for equity valuation. It was developed by Fuller and Hsia to account for growth rates that begin at an elevated level and then decline linearly toward a long-term stable rate. This provides a more realistic transition than the abrupt changes found in standard two-stage models.

2. (C) Capable management can slow the erosion of competitive advantage but cannot prevent it altogether.
Competitive advantages naturally diminish over time as market forces and rivals react to a firm's success. While skilled management can implement strategic initiatives to delay this decay, they cannot entirely eliminate the competitive pressures that eventually lead to market position erosion. Factors like innovation and entry barriers only temporarily shield companies from inevitable long-term industry-wide equilibrium and competition.

3. (C) Total cash flow to all claim holders calculated prior to payments on debt and preferred dividends.
Free cash flow to the firm represents the total cash available to satisfy all capital providers, including both debt holders and equity shareholders. It is calculated by taking operating income after taxes and adjusting for non-cash charges and net investments. This measure excludes the effects of interest payments or dividends, focusing strictly on the firm's core operational cash generation capabilities.

4. (C) It overvalues companies that possess large cash balances which they do not distribute as dividends.
The dividend discount model focuses exclusively on cash flows actually distributed to shareholders. Consequently, companies that accumulate significant cash reserves without paying them out as dividends will appear undervalued rather than overvalued. This occurs because the model fails to account for the value of retained assets, which belong to the equity owners despite not being paid out as cash.

5. (B) The H model assumes the exceptional growth rate in the beginning stage decreases linearly over time until it achieves a stable rate.
The standard two-stage growth model assumes a period of constant high growth followed by a sudden shift to stability. In contrast, the H model introduces a transition phase where the initial exceptional growth rate declines in a linear fashion toward the long-term stable rate. This linear progression often better reflects the gradual erosion of competitive advantages seen in real-world markets.

6. (B) Evaluating the Type of Leverage as Static or Dynamic.
When evaluating firms with negative earnings, analysts focus on survival probability, margin adjustments, and liquidation values. While leverage is important for determining if a firm is overburdened with debt, the specific categorization of leverage as static or dynamic is a framework used for selecting between different free cash flow models rather than assessing current earning distress or survival pathways.

7. (B) The value estimated by a neutral analyst using expected cash flows and an appropriate discount rate.
Intrinsic value represents the perceived actual worth of an asset based on its underlying fundamentals rather than its current market price. In discounted cash flow valuation, this is derived by projecting future cash flows and discounting them at a rate reflecting the associated risk. It reflects what an informed, neutral party believes the asset is worth based on objective financial data.

8. (B) It is the basis upon which all other techniques, including relative valuations, are constructed.
Discounted cash flow valuation serves as the theoretical foundation for all other valuation methodologies. Even relative valuation techniques, which use multiples and comparable

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26. (D) The possibility that an entity may fail to fulfil a financial obligation like interest or principal.
Default risk is specifically the hazard that a borrower or issuer will be unable to make the required payments on their debt obligations, such as interest or principal. This risk is a key component in determining the cost of debt. It is distinct from market risk, which refers to the volatility of returns due to broader economic factors.

27. (A) Companies with exponentially decaying growth independent of the economy's nominal growth rate.
Firms are generally categorized into three growth patterns for valuation: stable growth (equal to or less than the economy), moderate growth (slightly faster than the economy), and high growth (significantly faster). A pattern described as exponentially decaying growth independent of the economy is not one of the standard categories used to select specific valuation models within this conceptual framework.

28. (A) Free Cash Flow to Firm
When a firm's cash flows can be estimated and its leverage is dynamic, meaning it changes over time, the Free Cash Flow to the Firm model is the preferred valuation method. Using FCFF is more straightforward in these cases because it avoids the complexities of calculating a changing cost of equity and debt-related cash flows required for equity-side valuation.

29. (C) Estimating cash flows prior to debt payments is more complex than adding FCFE to debt cash flows.
In practice, estimating free cash flow to the firm is often considered simpler than estimating free cash flow to equity and then adding back debt payments. FCFF focuses on after-tax operating income and net investment, bypassing the need to forecast specific debt-related cash flows like principal repayments and new debt issuances that are required to calculate FCFE accurately.

30. (D) Smoothed dividends are reliable despite earnings uncertainty, leading to more stable valuations.
Many companies follow a smoothed dividend policy, meaning they maintain stable dividend payments even when earnings fluctuate. This makes the dividend discount model appealing to analysts because the input variable is more predictable and less volatile than earnings or free cash flows. This stability leads to valuations that are less sensitive to short-term economic shocks or accounting variations.

31. (C) II, I, III
In a typical three-stage dividend discount model, the company first experiences a period of high growth where the payout ratio is low and constant. In the second stage, the growth rate begins to decline, and the payout ratio transitions linearly upward. Finally, in the third stage, the company reaches a steady, low growth state with a high, stable payout.

32. (B) Free Cash Flow to Firm Model – Risk-free rate without any market risk premium.
The Free Cash Flow to the Firm model must use the weighted average cost of capital as the discount rate. Using only the risk-free rate without any market risk premium is incorrect because it fails to account for the systematic risk of the firm's operations and the risk associated with its specific capital structure and debt-to-equity components.

33. (B) For businesses that are developing at a rate considered to be moderate.
The two-stage discounted cash flow model is most effective for valuing firms with moderate growth. These firms typically experience an initial period where growth is slightly higher than the economy before settling into a long-term stable rate. This model captures the transition better than a stable growth model while remaining simpler to implement than a complex three-stage model.

34. (C) Statement I is true, and Statement II is false.
The dividend discount model often overvalues firms that pay out more in dividends than they generate in free cash flow, as they must eventually issue debt or equity to sustain those payments. However, forecasting free cash flows actually requires more assumptions than forecasting dividends, as it involves predicting operating margins, taxes, capital expenditures, and specific working capital needs.

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fundamental logic of modern financial valuation and contemporary capital structure theory.

75. (D) It falls abruptly from 20% to the stable rate of 10%.
A key characteristic of the standard two-stage growth model is the assumption of an abrupt transition between the two growth phases. In this specific application, the growth rate is expected to remain at 20% for exactly five years and then drop immediately to the stable level of 10% for all subsequent years without any gradual transition period or decay.

76. (A) I, II, and III only
The framework correctly starts by asking if cash flows can be estimated and uses DDM if they cannot. If they can, it assesses leverage. However, statement IV is false because the framework specifies that dynamic leverage dictates the use of Free Cash Flow to the Firm, while static leverage allows for the use of Free Cash Flow to Equity.

77. (D) Include a default spread and adjust for the tax deductibility of interest expenses.
To calculate the cost of debt for use in the cost of capital, a company must start with a risk-free rate and add a default spread that reflects its specific credit risk. This pre-tax cost is then adjusted for the tax deductibility of interest, as the interest tax shield reduces the effective net cost of borrowing to the company.

78. (D) II, III, IV, and V only
Consensus estimates can be biased, rentals in tight markets can outpace inflation, stable companies grow at or below the economy rate, and moderate growth is around 8-10%. Statement I is false because historical growth is often an unreliable indicator of future performance, as businesses face changing competition, market saturation, and evolving economic environments that alter future potential.

79. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The H model's structure assumes a constant payout ratio across all stages of growth. Because of this mathematical assumption, it cannot be used to value companies that currently pay no dividends, as it would result in a zero valuation regardless of growth. This restricts its use to firms that already have established and consistent dividend payout policies in place.

80. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Constant growth steady state models are highly accurate for firms that have reached maturity and are growing at a stable rate. By definition, these mature companies have growth rates that are sustainable over the long term, typically matching or falling slightly below the nominal growth rate of the broader economy in which they are currently operating and competing.

81. (C) Rs. 43.60
The normal growth value in the H model is calculated as [D0 * (1 + g_stable)] / (r - g_stable). With D0=2, g_stable=0.09, and r=0.14, the calculation is [2 * 1.09] / (0.14 - 0.09). This equals 2.18 / 0.05, which results in Rs. 43.60. This represents the value the share would have if it grew at the stable rate perpetually.

82. (A) I, II, III, and IV only
DCF valuation requires predicted future cash flows, a risk-adjusted discount rate, and an estimated growth rate and pattern. Statement V is false because the cost of capital should always rely on market value weights, not book value weights. Market values correctly reflect the current opportunity costs and the financial reality of the firm's capital structure in the market.

83. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Despite the high uncertainty involved in valuing young or distressed companies, analysts should continue to use DCF models. The fundamental belief is that while market prices can be wrong in the short term, they will eventually converge with the intrinsic value derived from fundamentals. DCF provides a disciplined framework for making these long-term value judgments based on cash generation.

84. (C) Equity weight: 85.71%, Debt weight: 14.29%
Using market values, the total value of Sigma Industries is Rs. 300 Crores plus Rs. 50 Crores, totaling Rs. 350 Crores. The weight of equity is 300

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relative to the economy and its competitive duration.

45. (C) I and II only
The expected return is correctly defined as the risk-free rate plus a risk premium. This premium should be proportional to the systematic market risk of the investment. The third statement is false because the cost of equity must account for future market risk and is not calculated strictly based on historical dividend yields without considering the contemporary risk environment.

46. (B) It may be higher than inflation until market shortages are eventually eliminated by new supply.
In a tight real estate market where demand exceeds supply and vacancy rates are low, rental growth often outpaces the rate of inflation. This elevated growth persists until new supply enters the market and eliminates the shortage. This scenario illustrates how specific market conditions can justify growth assumptions that temporarily exceed broader economic averages or historical company performance.

47. (D) Statement I is false, and Statement II is true.
The Adjusted Present Value model does not discount levered cash flow at the WACC; it discounts unlevered cash flow at the unlevered cost of equity. However, the model correctly adds the present value of the interest tax shield on debt to this base value to determine the total value of the levered firm, accounting for the benefits of debt.

48. (B) P-3, Q-2, R-4, S-1
Dividends are the only literal cash flow shareholders receive from a company. Free cash flow to equity is the residual after meeting non-equity claims and reinvestment. Free cash flow to the firm is the total flow to all claim holders prior to debt payments. After-tax operating income is the starting point for calculating these various firm-wide cash flows.

49. (A) Management estimates – The only method guaranteed to be completely neutral and devoid of estimation errors.
Management estimates are often biased and subject to significant estimation errors. While managers have internal information, they frequently exhibit optimism or strategic bias in their projections. This makes them far from being a guaranteed neutral source for growth predictions, which is why analysts often look to consensus estimates or historical data for more objective comparison and validation.

50. (C) P-4, Q-3, R-1, S-2
The Constant Growth Model assumes a fixed, perpetual growth rate. The Zero Growth Model assumes the dividend per share remains unchanged. The H Model assumes a linear decrease in exceptional growth toward a stable rate. The Two-Stage Model assumes a high growth period for a set duration followed by an abrupt shift to long-term stability for the firm.

51. (B) I and III only
The three-stage model consists of a high growth phase, a linear transition, and a stable phase. It is considered generic because it does not impose strict limitations on the payout ratio, allowing it to vary over time. The second statement is false because the model is designed to handle changing payout ratios, particularly during the transition and stable periods.

52. (D) II, IV, I, III
To compute intrinsic value using the Two Stage Model, first determine the expected dividends for each high-growth year. Next, discount these dividends to their present value. Then, calculate and discount the terminal share price at the end of the high-growth period. Finally, sum the present value of the dividends and the present value of the terminal share price.

53. (C) P-4, Q-3, R-2, S-1
Product patents cause advantages to vanish suddenly when legal barriers expire. Well-known brand names are challenging to overcome and provide long-term growth. First mover advantages are often lost quickly as others enter. Management competence can slow the erosion of an advantage, although it cannot prevent the eventual decline caused by competitive market forces over an extended period.

54. (D) Statement I is false, and Statement II is true.
While the H model's linear growth decay is more realistic than the abrupt transition in a two-stage model, the first statement is false. The

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model only accounts for the present value of expected future dividend payments, it will ignore the value of the significant cash balance on the balance sheet. This exclusion results in an undervaluation of the firm's true equity worth from the perspective of the owners.

95. (A) Year 11 EPS, 12% growth rate, 45% payout ratio, and a cost of equity of 14%.
The terminal value at the end of the transition phase is calculated using the expected earnings for the first year of the stable phase. This involves applying the stable growth rate, the stable payout ratio, and the final cost of equity reached at the end of the transition period to find the perpetual value of the firm's future dividends.

96. (B) Use Current Earning Base
For a firm with negative earnings where survival is deemed possible and a margin adjustment has been assessed, the next step in the evaluation pathway is to use the adjusted current earning base for the valuation. This involves normalizing the earnings to reflect the firm's long-term earning potential once the current distress or abnormal conditions are eventually resolved.

97. (A) Discount unlevered equity cash flow at unlevered cost and add the interest tax shield.
In the Adjusted Present Value model, total value is found by first discounting the firm's unlevered equity cash flows at the unlevered cost of equity. To this value, the analyst adds the present value of the interest tax shields created by debt financing. This process separates the value of operations from the specific value of financing benefits.

98. (B) Cumulated cost of equity in the 10th year reflecting the changing discount rates.
In a model where the cost of equity changes over time, the terminal value must be discounted back to the present using the cumulated cost of equity. This factor accounts for the different discount rates applied during each year of the high growth and transition periods, ensuring the present value correctly reflects the time value of money throughout.

99. (D) Three Stage Model allows the payout ratio to change linearly; H model assumes it is static.
A significant difference between these two models is their treatment of the payout ratio. The three-stage model is flexible and allows the payout ratio to transition, often linearly, from a low level during high growth to a higher level during maturity. The H model, while accommodating linear growth decay, assumes the payout ratio remains constant throughout the entire transition.

100. (D) It will result in overvaluation by projecting dividends without accounting for cash flows.
Omicron Media pays dividends that are higher than its sustainable cash flows, funded by new debt. The dividend discount model will likely overvalue this company because it projects those high dividends into the future without accounting for the fact that the firm's underlying cash generation cannot support them, ignoring the costs and risks of the necessary future financing.

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multiplying it by one plus the expected growth rate for the first period. With a current dividend of Rs. 6 and a high growth rate of 20%, D1 equals Rs. 6 multiplied by 1.20, which is Rs. 7.20. This serves as the starting cash flow.

65. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The cost of debt is indeed lower after taxes for profitable companies because interest payments are a tax-deductible expense. This deduction reduces the firm's taxable income, effectively creating a tax shield that lowers the net cost of borrowing. This fundamental relationship is why the after-tax cost of debt is used in the weighted average cost of capital calculations.

66. (A) 4 years
In the H model, the parameter 'H' is defined as one-half of the duration of the transition period during which the high growth rate declines to the stable rate. For Gamma Corp, the transition period is 8 years. Therefore, the value of H used in the valuation formula is 8 divided by 2, which equals 4 years precisely.

67. (C) I, III, and IV only
Models using dividends are dividend discount models, and FCFF represents total flow to all claimants, estimated from after-tax operating income minus net investment. Statement II is false because Free Cash Flow to Equity is calculated after meeting the claims of non-equity investors, such as interest and principal payments to debt holders, representing the residual value for owners.

68. (D) Assertion (A) is false, but Reason (R) is true.
The assertion is false because the Adjusted Present Value model results in an estimate of the total value of the firm, not just the levered equity cash flow. It achieves this by adding the present value of the interest tax shield to the present value of the firm's unlevered cash flows. This approach isolates the impact of financing on value.

69. (A) Rs. 28.57
For a share with zero growth, the fair price is calculated by dividing the constant annual dividend by the required rate of return. With a dividend of Rs. 4 and a required return of 14%, the price is 4 divided by 0.14. This calculation yields approximately Rs. 28.57, representing the present value of a perpetual annuity without any growth.

70. (C) I, II, III, and IV only
The three-stage model is flexible enough to handle changes in the payout ratio and cost of equity during the transition phase. It also requires discounting the terminal value back to the present. Statement V is false because the model is not restricted to firms with zero payouts; it can be applied to firms with established and substantial payout ratios.

71. (A) Rs. 25.60
The premium for anomalous growth in the H model is calculated as [D0 * H * (g_high - g_stable)] / (r - g_stable). Using the provided values, the calculation is [2 * 4 * (0.25 - 0.09)] / (0.14 - 0.09). This equals [8 * 0.16] / 0.05, which is 1.28 / 0.05 = Rs. 25.60. This reflects the extra value from the transition.

72. (B) I, III, and IV only
The H model was developed by Fuller and Hsia, uses H as half the transition period, and assumes constant payout and cost of equity. Statement II is false because the H model specifically assumes a linear transition period for growth, rather than an immediate and abrupt drop to a stable growth rate seen in the two-stage growth model.

73. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The dividend discount model focuses only on cash distributed to shareholders. For firms that retain large amounts of cash on their balance sheets, the model ignores the value of these assets, leading to an undervaluation. This is accurate because shareholders are the ultimate owners of that cash, even if it is not currently being distributed by the firm.

74. (D) Assertion (A) is false, but Reason (R) is true.
The assertion is false because analysts should use market value weights, not book value weights, to determine the cost of capital. The reason is true; valuation principles rely on the concept of fair value indifference. Using book values ignores current market conditions and contradicts the

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Oct/Nov 2023

7. Which of the following is NOT an accurate representation of how assets are valued under the adjusted book value approach?
(A) Finished goods are valued by adding profit to raw material costs.
(B) Cash is assigned its full nominal value because it is highly liquid and available.
(C) Debtors are valued at face value minus a reserve for potential customer defaults.
(D) Land is valued as if it were currently uninhabited and for sale on the market.

May/June 2005

8. Consider the following potential results of failing to control for basic differences when comparing multiples across organizations:
I. Erroneous multiples comparison conclusions
II. Overvaluing a high-risk company
III. Undervaluing a high-growth company
IV. Perfectly accurate synergy assessments
Which of the above statement(s) is/are correct?
(A) II, III, and IV only
(B) I, II, and III only
(C) I, III, and IV only
(D) I, II, and IV only

Oct/Nov 2018

9. An agricultural firm is looking to price a newly acquired 10-acre plot of agricultural land. The firm observes that a similar plot nearby, measuring 4 acres, recently sold for Rs. 24 lakhs. Using basic relative valuation logic, what be the estimated value of the firm's 10-acre land?
(A) Rs. 48 lakhs
(B) Rs. 60 lakhs
(C) Rs. 50 lakhs
(D) Rs. 100 lakhs

May/June 2019

10. An appraiser is valuing Orion Ltd using the Adjusted Book Value approach. The replacement cost of Orion's physical assets is Rs. 80,000 crore. Orion holds a 40% stake in a subsidiary valued at Rs. 20,000 crore (stake value). Cash holdings are Rs. 10,000 crore. Outstanding debt is Rs. 15,000 crore. Orion has 500 crore shares outstanding. What is the Net Asset Value (NAV) per share?
(A) Rs. 170
(B) Rs. 190
(C) Rs. 210
(D) Rs. 230

Oct/Nov 2016

11. Which of the following is NOT considered a downside of the P/B multiple?
(A) It fails to account for significant intangible assets such as brand equity and intellectual property.
(B) Statistical data shows market returns are not strongly tied to price-to-book ratios.
(C) The discrepancy between historical book value and market value is often significantly widened by inflation.
(D) Differences in asset requirements across business strategies can make the resulting multiple very deceiving.

May/June 2022

12. What is the key distinction regarding the distribution of relative PE ratios compared to actual PE ratios?
(A) The average relative PE ratio is 1.
(B) The average relative PE ratio is 0.
(C) Relative PE ratios cannot be negative.
(D) Relative PE ratios ignore the market average.

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Oct/Nov 2010

13. Which of the following is incorrect regarding the fundamental method for selecting the best multiple?
(A) It relies on utilizing the variable with the highest association with the worth of the company.
(B) Consumer product companies tend to have more stable revenue streams.
(C) There is a high degree of correlation between current earnings and value in cyclical companies.
(D) Price-earnings multiples are highly appropriate for consumer product firms.

May/June 2008

14. Consider the following factors that influence a firm's price-book value ratio:
I. Predicted pay-out ratio
II. Profits growth
III. Riskiness
IV. Higher returns lead to higher PBV ratios
V. Lower returns lead to lower PBV ratios
Which of the above statement(s) is/are correct?
(A) I, II, III, IV, and V
(B) I, II, and III only

divided by 350 (85.71%), and the weight of debt is 50 divided by 350 (14.29%). Valuation principles dictate that market values, not historical book values, must be used for capital weighting.

85. (C) Assertion (A) is true, but Reason (R) is false.
The H model does assume that exceptional growth decreases linearly toward a stable rate. However, the reason is false because the model actually simplifies the valuation by assuming that the dividend payout ratio and the cost of equity do not change over time, despite the significant fluctuations in the growth rate during the transition period from high to stable growth.

86. (B) I, II, and IV only
The two-stage model involves a period of exceptional growth followed by stability, uses terminal value, and calculates the present value of a growing annuity. Statement III is false because the model assumes the share has significant value at the end of the high-growth period, which is captured by the terminal price based on future stable cash flow growth expectations.

87. (B) n
In the two-stage discounted cash flow model formula, the variable 'n' represents the number of years for which the extraordinary or exceptional growth rate is expected to last. This time horizon is a critical input, as it determines how long the higher growth rate is applied before the model switches to the terminal, stable growth phase for the valuation.

88. (B) I, III, IV, and V only
DDM is intuitive and more stable with smoothed dividends but undervalues cash-heavy firms and overvalues those with unsustainable payouts. Statement II is false because forecasting dividends actually requires fewer assumptions than forecasting free cash flows, as free cash flow prediction necessitates detailed projections of several operational and capital-related line items from the firm's balance sheet and income statement.

89. (B) Rs. 50.00
Using the Constant Growth Model, the fair price is calculated using the expected dividend of Rs. 4, a required return of 14%, and a growth rate of 6%. The formula is 4 / (0.14 - 0.06), which equals 4 / 0.08. This calculation results in a current fair share price of Rs. 50.00 for Delta Corp's equity.

90. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Historical growth is often a poor predictor of future performance because a firm's past success may not be sustainable. Factors such as reaching market saturation, increased competition, or changes in the broader economic environment can cause future growth to deviate significantly from past trends. Relying solely on historical data for valuation purposes is therefore dangerous and often misleading.

91. (B) By discounting the firm's FCFF using the weighted average cost of capital.
The Enterprise DCF model arrives at the operating value of a firm by projecting its free cash flows to the firm and discounting them at the company's weighted average cost of capital. This approach values the entire business as a whole, considering the cash flows available to all capital providers before the specific effects of debt financing are accounted for.

92. (C) Stable Growth Model
When a firm's present growth rate is equal to or less than the nominal growth rate of the economy, the selection framework mandates the use of the Stable Growth Model. At this stage, the firm is assumed to have reached maturity, and a constant, long-term growth assumption is appropriate for estimating its intrinsic value based on stable cash flows.

93. (D) Dividend Discount Model
In cases where free cash flows cannot be estimated reliably—often due to unpredictable capital expenditures or working capital needs—but the firm has a consistent history of paying dividends, the framework directs analysts to use the Dividend Discount Model. This model provides a practical valuation based on the predictable cash distributions actually received by shareholders over time.

94. (C) It will be undervalued as the model ignores cash balances that shareholders stake.
Epsilon Retail pays low dividends while holding a large cash reserve. Since the dividend discount

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second statement is true because the H model operates under the simplified assumption that the dividend payout ratio and the cost of equity remain constant throughout the different phases, despite the significant fluctuations in the growth rate.

55. (A) H Model – Uses 'H' as half the duration for the growth rate to level out to stable growth.
In the H model, the variable 'H' represents one-half of the duration of the transition period during which the growth rate declines from its initial high level to its long-term stable level. This is a defining characteristic of the model's structure, allowing it to approximate a linear decline in growth over time using a relatively simple algebraic equation.

56. (A) First term is normal growth value; second is the premium from anomalous growth.
The H model formula is structured into two main components. The first term calculates the value of the firm based on its long-term stable growth rate. The second term represents the additional premium, or extra value, generated by the period of exceptional, above-normal growth as it transitions toward that stable rate. This structure clarifies the sources of equity value.

57. (A) I and II only
DCF valuation is the foundation for all other techniques and assumes value is the sum of discounted future cash flows. However, the third statement is false because riskier assets require higher discount rates, not lower ones. A higher discount rate reduces the present value of future cash flows, reflecting the increased compensation required for taking on additional market risk.

58. (A) P-4, Q-1, R-2, S-3
Stable growth is characterized by expansion equal to or less than the economy's growth. Moderate growth is slightly faster than the economy. High growth is significantly faster. Steady state models are most accurate when applied to businesses that have reached a stable, constant rate of growth, matching their long-term operational reality and competitive market position.

59. (C) Statement I is true, and Statement II is false.
In tight real estate markets, rental growth can certainly exceed inflation due to supply constraints. However, the second statement is false because the anticipation of rent control would likely decrease the predicted growth rate of cash flows over time, as it limits the ability of owners to raise rents in response to market demand and rising operating costs.

60. (B) P-4, Q-1, R-3, S-2
Enterprise DCF applies WACC to FCFF. APV discounts unlevered cash flows at the unlevered cost and adds the tax shield. Economic Profit discounts the profit stream using WACC and adds invested capital. Equity DCF is implemented using either the dividend discount model or the free cash flow to equity model to determine the value of shareholder equity.

61. (C) I, II, III, and V only
Default risk involves breaking financial promises, and the cost of debt reflects this risk after taxes. Risk should be viewed through the marginal investor's eyes. Technological barriers do slow erosion. However, statement IV is false because a well-known brand name is a competitive advantage that typically erodes gradually over time, not suddenly like a patent would.

62. (D) Assertion (A) is false, but Reason (R) is true.
The assertion is false because forecasting dividends actually requires fewer assumptions than forecasting free cash flows. Free cash flow estimation requires detailed predictions of operating income, taxes, capital expenditures, and changes in working capital. Dividends are a single line item, making the DDM simpler, though often less comprehensive, than free cash flow models used in complex firm valuations.

63. (A) I, II, and IV only
The Enterprise DCF, Equity DCF, and Economic Profit models are correctly described in the statements. However, the third statement is false because the Adjusted Present Value model specifically includes the interest tax shield by adding its present value to the unlevered firm value. It does not ignore it; doing so would significantly undervalue the tax benefits of debt financing.

64. (C) Rs. 7.20
The expected dividend at the end of year one is calculated by taking the current dividend and

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CHAPTER 15
Other Non-DCF Valuation Models

Oct/Nov 2021

1. Which of the following perspectives are typically considered when choosing valuation multiples?
I. The Cynical View
II. The Bludgeon View
III. The Best Multiple View
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2014

2. Match the approaches to adjusting book values in List I with their appropriate context in List II:
List I: Adjusting Book Value Approach
P. Adjusted Book Value Approach
Q. Liquidation Value Approach
R. Unadjusted Book Value Approach
S. Replacement Cost Approach
List II: Context
1. Valuation of regulated industries
2. Assigns current cost of replacing physical assets
3. Values assets as if sold separately in a dead state
4. Derives majority of value from tangible resources and recalibrates omitted assets
(A) P-1, Q-2, R-3, S-4
(B) P-4, Q-1, R-2, S-3
(C) P-4, Q-3, R-1, S-2
(D) P-2, Q-3, R-1, S-4

Oct/Nov 2012

3. Match the financial parameters in List I to their corresponding formulas in List II:
List I: Financial Parameters
P. Free Cash Flow to Firm (FCFF)
Q. EBITDA
R. Book value per share
S. Relative PE
List II: Formulas
1. EBIT + Depreciation and amortization
2. Current PE ratio of firm / Current PE ratio of market
3. EBITDA - (T x EBIT) - CAPEX - change in NWC
4. (Shareholders funds minus Preference capital) / Number of outstanding equity shares
(A) P-1, Q-3, R-2, S-4
(B) P-3, Q-1, R-4, S-2
(C) P-4, Q-2, R-3, S-1
(D) P-2, Q-4, R-1, S-3

May/June 2025

4. Epsilon Limited has a Price to Book (P/B) ratio of 3.0 and generates a Return on Equity (ROE) of 15 percent. Using the modified multiple of P/B to ROE, calculate Epsilon's Value Ratio.
(A) 5.0
(B) 10.0
(C) 15.0
(D) 20.0

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Oct/Nov 2006

5. In the most common form of the P/E multiple metric, how is the denominator typically measured?
(A) EPS for the previous 5 years
(B) Predicted EPS for the current year
(C) Predicted EPS for the following two years
(D) EPS for the previous financial year only

May/June 2011

6. Which of the following equations accurately depicts the relationship between FCFF and EBITDA?
(A) FCFF = EBITDA + (T × EBIT) + CAPEX + change in NWC
(B) FCFF = EBITDA – (T × EBIT) + CAPEX - change in NWC
(C) FCFF = EBITDA + (T × EBIT) – CAPEX + change in NWC
(D) FCFF = EBITDA – (T × EBIT) - CAPEX – change in NWC

35. (A) P-3, Q-1, R-4, S-2
When cash flow estimation is possible and leverage is static, Free Cash Flow to Equity is used. If leverage is dynamic, Free Cash Flow to the Firm is the choice. If cash flows cannot be estimated reliably, the Dividend Discount Model is utilized. The initial question of cash flow predictability serves as the base for the entire model selection.

36. (A) II and III only
Moderate growth companies are defined as those growing slightly faster than the economy. Steady state models are indeed accurate for businesses growing at a stable, constant rate. However, the first statement is incorrect because stable growth companies grow at a rate equal to or lower than the nominal growth rate of the economy, not at a rate significantly faster.

37. (A) Perspective of a diversified marginal investor most likely to be trading the company's assets.
For the purpose of establishing the cost of equity, risk is viewed through the lens of a marginal investor who is well-diversified. This investor only cares about the systematic risk that cannot be diversified away. The discount rate reflects the compensation required for this non-diversifiable risk rather than total risk or the specific internal concerns of company management.

38. (D) P-3, Q-4, R-1, S-2
Forecasting dividends requires fewer assumptions than free cash flows. A smoothed dividend policy makes valuation more reliable and stable. Large retained cash balances lead to undervaluation in DDM because those assets are ignored. Conversely, paying dividends higher than cash flows results in overvaluation as the model ignores the costs of funding the payout deficit through financing activities.

39. (A) Both Statement I and Statement II are true.
Analysts should use market value weights because valuation is based on the principle of indifference at fair value; book values fail this test by using historical costs. Furthermore, the cost of debt must include a default spread to account for the possibility of non-payment, reflecting the actual risk premium demanded by lenders in the current credit market environment.

40. (D) P-2, Q-4, R-3, S-1
Default risk is the possibility of failing to fulfill a financial obligation. The cost of debt reflects this risk and is lower after-tax due to interest deductibility. Market risk is the non-diversifiable risk used for equity discount rates. Cost of capital weights should be based on the current market values of the firm's debt and equity components.

41. (B) I and III only
The dividend discount model is intuitive because dividends are the actual cash received by shareholders, and a smoothed dividend policy provides more stable valuation inputs. However, the model does not eliminate the risk of undervaluing companies with large cash balances; it is specifically criticized for causing such undervaluation by ignoring non-distributed assets held on the balance sheet.

42. (C) Concepts in dividend models apply when looking at alternative discounted cash flow models.
Even when the dividend discount model is considered conservative, its underlying concepts—such as discounting future cash flows and the relationship between growth and required returns—remain relevant across all DCF methodologies. Analysts find value in these models as a benchmark and because the fundamental logic of discounting applies regardless of the specific cash flow measure being utilized.

43. (B) Firm Overburdened With Debt (Yes) – Value Equity as an option to Liquidate.
In the evaluation of distressed firms with negative earnings, if a firm is found to be overburdened with debt, the equity is valued as an option to liquidate. This recognizes that common stock has limited liability and functions like a call option on the firm's assets when debt obligations exceed the current total value of those assets.

44. (D) P-4, Q-1, R-2, S-3
If growth is less than the economy, use the Stable Growth Model. If growth is higher than the economy and competitive advantage is short-lived, use the Two Stage Model. If the advantage is long-lived, use the Three Stage Model. These choices are based on evaluating the firm's growth

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(C) II, IV, and V only
(D) I, III, IV, and V only

Oct/Nov 2025

15. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option.
Assertion (A): The "Cynical View" of choosing multiples suggests educating oneself on how to select the single variable with the highest statistical correlation.
Reason (R): The cynical perspective involves choosing the multiple that conforms to preconceived notions to provide the highest or lowest possible value depending on the objective.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2017

16. Theta Company has an ROIC of 25%, a growth rate (g) of 5%, depreciation and amortization charges (DA) at 10% of EBITDA, and a tax rate (t) of 20%. Theta's WACC is 15%. Calculate Theta's EV/EBITDA multiple based on fundamental determinants.
(A) 6.20
(B) 5.76
(C) 7.50
(D) 8.15

Oct/Nov 2009

17. Which economist stated that "humans rarely choose things in absolute terms" to explain the rationale behind relative valuation?
(A) Dan Ariely
(B) Benjamin Graham
(C) David L. Dodd
(D) Aswath Damodaran

May/June 2013

18. In the EV/Sales basic determinants formula, the term 'After tax operating margin' is multiplied by which factor?
(A) (1–g) × (1+reinvestment rate)
(B) (1+g) × (reinvestment rate)
(C) (1+g) × (1-reinvestment rate)
(D) (1–g) × (reinvestment rate)

Oct/Nov 2015

19. Why is it traditionally considered difficult to put a price on synergy in valuation models?
(A) Because individual asset values in a vacuum almost always exceed their combined value.
(B) Because intangible assets such as patents can never be fully and legally owned by firms.
(C) Because synergy as a concept only applies to sophisticated discounted cash flow models.
(D) Value is created through novel asset combinations, making the whole greater than the sum.

May/June 2020

20. Identify the incorrect statement regarding the application of the P/E multiple:
(A) Earnings potential determines investment value.
(B) Results frequently contain non-recurring and volatile components making analysis challenging.
(C) Management has absolutely no leeway to alter EPS under generally accepted accounting principles.
(D) Earnings sustained over time play a significant role in determining intrinsic value.

Oct/Nov 2007

21. Delta Corp currently trades at a Price to Earnings (PE) ratio of 25. Analysts anticipate the company's annual growth rate in earnings per share to be 20 percent. What is the PEG ratio for Delta Corp, and at first glance, does it appear undervalued or overvalued?
(A) PEG = 1.25, Appears undervalued
(B) PEG = 1.25, Appears overvalued
(C) PEG = 0.80, Appears overvalued
(D) PEG = 0.80, Appears undervalued

May/June 2024

22. Consider the following fundamental determinants of the EV/EBITDA multiple:
I. Return on invested capital (ROIC)
II. Growth rate (g)
III. Tax rate (t)
IV. Weighted average cost of capital (WACC)
Which of the above statement(s) is/are correct?

NODIA

(A) I, II, and III only
(B) II, III, and IV only
(C) I, II, III, and IV
(D) I, III, and IV only

Oct/Nov 2014

23. Consider the following potential causes for a discrepancy between book values and market values:
I. The historical cost of an asset is subtracted from its total depreciation, ignoring inflation.
II. Advancements in technology make certain assets obsolete even before being completely written off.
III. Organisational capital is prominently displayed and constantly revalued on the balance sheet.
Which of the above statement(s) is/are correct?
(A) II and III only
(B) I and III only
(C) I, II, and III
(D) I and II only

May/June 2006

24. Identify the incorrect pair regarding what equity multiples scale market value to:
(A) Price-to-earnings – Enterprise value
(B) Price-to-earnings – Net income
(C) Price-to-book – Book value
(D) Price-to-sales – Revenues

Oct/Nov 2019

25. Nexus Limited boasts an after-tax operating margin of 15 percent and a growth rate of 10 percent. Its reinvestment rate is 50 percent, and the WACC is 16 percent. Calculate the EV/Sales multiple.
(A) 1.25
(B) 1.375
(C) 1.50
(D) 2.10

May/June 2010

26. Consider the following statements about the Price to Book Value (P/B) multiple:
I. The denominator of the P/B multiple is a stock metric derived from the balance sheet.
II. Book value per share is calculated by adding preference capital to shareholders' funds.
Which of the above statement(s) is/are correct?
(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

Oct/Nov 2022

27. Arrange the primary steps involved in performing relative valuation in the correct sequential order:
I. Determining the multiples used in valuation
II. Conducting research on the concerned organisation
III. Establishing a value for the concerned business
IV. Identifying businesses that are analogous
V. Figuring out the valuation multiples for the other comparable companies
(A) IV, II, V, I, III
(B) II, I, IV, III, V
(C) II, IV, I, V, III
(D) I, II, IV, V, III

May/June 2023

28. Which of the following is NOT typically a point considered during the initial comprehensive analysis of the subject company in relative valuation?
(A) The dynamics of competitive markets
(B) Revenue, profit margins, and the rate of return on investment
(C) The projected free cash flow to firm over a ten-year horizon using DCF
(D) Reputation in the market, availability of distribution, and continued patronage

Oct/Nov 2013

29. At first glance, how is a stock generally perceived based on its PEG multiple?
(A) Overvalued if the PEG multiple is less than 1
(B) Fairly valued only if the PEG multiple is negative
(C) Undervalued if the PEG multiple is greater than 1
(D) Undervalued if the PEG multiple is less than 1

May/June 2015

30. Which of the following pairs correctly matches the company type with its most suitable valuation multiple?
(A) Young companies without a track record of positive profitability - EV/sales multiple

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(B) Companies with significant non-cash expenses (airlines) - P/B multiple
(C) Cyclical companies with unstable revenue streams - P/E multiple
(D) Financial institutions with accurate balance sheets - EV/EBITDA multiple

Oct/Nov 2005

31. Which statement accurately describes the scaling of market value in equity multiples?
(A) Price-earnings ratio scales equities market value to net income.
(B) Equity multiples are solely established by the historical, fixed dividend payouts without predicting future growth.
(C) Greater growth and lower risk should result in higher multiples of earnings.
(D) Multiples vary depending on country, time, and company fundamentals.

May/June 2009

32. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option.
Assertion (A): EBITDA multiples make a great deal of sense when the majority of a stable company's value derives from its existing assets.
Reason (R): EBITDA provides a fairly accurate measurement of the pre-tax cash flows created by existing assets without being distorted by large, variable capital expenditures.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2020

33. Sigma Industries has 10 crore outstanding equity shares, currently trading at Rs. 50 per share. It has outstanding interest-bearing debt with a market value of Rs. 300 crore. The company holds Rs. 150 crore in cash. What is the Enterprise Value (EV) of Sigma Industries?
(A) Rs. 500 crore
(B) Rs. 650 crore
(C) Rs. 800 crore
(D) Rs. 950 crore

May/June 2012

34. In which year was equity valuation based on the P/E multiple formally introduced in foundational investment literature?
(A) 1929
(B) 1934
(C) 1945
(D) 1950

Oct/Nov 2011

35. In the fundamental formula for EV/BV (Enterprise Value to Book Value of assets), what is the denominator in the fundamental determinants equation?
(A) WACC - g
(B) ROIC - g
(C) ROE - g
(D) WACC + g

May/June 2018

36. Consider the following statements regarding issues encountered with Asset-Based Valuation:
I. Assets on the balance sheet might not be actively traded, making accurate market values difficult to obtain.
II. Market inefficiencies may result in market values not accurately reflecting true asset value.
III. The value of an asset in its current company use may differ from its market or liquidation value.
IV. Identifying and appraising omitted assets, like intangibles, is straightforward and precise.
Which of the above statement(s) is/are correct?
(A) I, II, and IV only
(B) II, III, and IV only
(C) I, II, and III only
(D) I, II, III, and IV

Oct/Nov 2008

37. Identify the incorrect statement regarding the application of multiples to valuation:
(A) High price-book value ratios with low returns on equity should draw investor attention as an anomaly.
(B) Failing to control for basic differences might lead to erroneous multiples comparison conclusions.
(C) Most investors perfectly understand how price and book value relate without any ambiguity.

NODIA

Oct/Nov 2024

82. Regarding the challenges and concepts associated with asset-based valuation, consider the following statements:

I. The difference between an asset's book value and its current value widens due to inflation.
II. Advancements in technology make certain assets obsolete.
III. Organisational capital does not appear on the balance sheet despite being a very important asset.
IV. Unadjusted book value is extremely common and applicable in actual-life scenarios.
V. Identifying and appraising omitted assets like intangibles is fraught with difficulty.

Which of the above statement(s) is/are correct?

(A) II, III, IV, and V only
(B) I, II, III, and V only
(C) I, II, and V only
(D) I, II, III, IV, and V

May/June 2007

83. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option.

Assertion (A): Relative valuation is frequently regarded as an alternative to discounted cash flow (DCF) valuation.

Reason (R): The DCF technique serves as the conceptual basis for the majority of relative valuation indicators, making the two strategies complementary.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2014

84. Zeta Tech trades at a Price to Sales (P/S) ratio of 2.5 and has a Net Profit Margin (NPM) of 10 percent. Calculate the PSM (multiple of P/S to NPM) for Zeta Tech.

(A) 25.0
(B) 0.25
(C) 12.5
(D) 40.0

Oct/Nov 2021

85. Identify the incorrect statement regarding the application and reasons for using the P/E multiple:

(A) Earnings potential is a significant factor in determining investment value.
(B) Using P/E as a ratio makes no sense from an economic standpoint if EPS is in the red.
(C) Management has limited leeway to alter EPS while still adhering to generally accepted accounting principles.
(D) Empirical data indicates that stocks with a high price-to-earnings ratio typically outperform the market.

May/June 2025

86. Regarding the estimation of value for a subject business, consider the following statements:

I. Applying the average multiples of comparable companies to the subject company's attributes yields a single value estimate.
II. The arithmetic average of multiple estimates provides the enterprise value of the subject company.
III. A judgmental view should be taken after comparing growth prospects, risk characteristics, and size with comparable companies.

Which of the above statement(s) is/are correct?

(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

Oct/Nov 2006

87. Regarding the volatility of FCFF compared to EBITDA, consider the following statements:

I. FCFF is less volatile than EBITDA because it excludes capital expenditures.
II. EBITDA provides a pretty accurate measurement of the pre-tax cash flows created by existing assets.

Which of the above statement(s) is/are correct?

(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

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(D) I, II, and IV only

Oct/Nov 2006

46. The PEG Ratio is defined as:
(A) Price to Book ratio divided by the annual return on equity for the period.
(B) P/E ratio divided by the anticipated earnings per share growth rate.
(C) Price to Sales ratio divided by the projected net profit margin for the year.
(D) Enterprise value divided by the expected annual growth rate of the entire firm.

May/June 2011

47. Match the optimal multiple in List I to the appropriate company profile in List II:
List I: Optimal Multiple
P. P/E multiple
Q. PEG multiple
R. P/B multiple
S. EV/FCFF multiple
List II: Company Profile
1. Companies with stable growth and predictable capital expenditures
2. Banks and financial institutions
3. Companies with a demonstrated track record of positive earnings and no large non-cash expenses
4. Companies with low volatility in their earnings per share growth rates and risk characteristics
(A) P-4, Q-3, R-1, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-2, Q-1, R-4, S-3
(D) P-3, Q-4, R-2, S-1

Oct/Nov 2023

48. When choosing between valuation approaches, an analyst's decision will primarily be determined by which of the following qualities of the company?
I. Earnings level and growth potential
II. Stability of debt and dividend policy
III. The number of employees in the HR department
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2005

49. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option.
Assertion (A): A PEG multiple less than 1 always guarantees that the stock is highly overvalued.
Reason (R): The PEG Ratio is defined as the ratio of price to earnings divided by the anticipated annual growth rate in earnings per share.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2018

50. A company is growing at a rate that is half that of the market. The market growth rate is 4 percent. Based on standardized relative valuation logic, the company's relative PE ratio will be approximately 80 percent of the market PE. If the market PE is 20, at what PE will the company trade?
(A) 10
(B) 16
(C) 24
(D) 32

May/June 2019

51. How is the Price-to-Sales (P/S) multiple determined?
(A) Current stock price divided by trailing twelve-month revenue per share.
(B) Market value of interest-bearing debt divided by total annual net sales figures.
(C) Current market price per share divided by the company's annual net profit margin.
(D) Book value of equity per share divided by the total revenue generated per share.

Oct/Nov 2016

52. How is the Net Operating Income After Tax (NOPAT) essentially represented in EV multiples?
(A) EBIT / (1 - Tax)
(B) EBIT × (1 - Tax)
(C) EBITDA × (1 - Tax)
(D) FCFF × (1 - Tax)

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(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2022

68. The current PE ratio for Omega firm is 18. The average PE ratio for the overall market is 24. Calculate the Relative PE Ratio for Omega firm.
(A) 1.33
(B) 1.50
(C) 0.75
(D) 0.50

May/June 2023

69. Which of the following is an accurate reason contributing to the widespread use of the P/B multiple?
(A) Book value per share is typically more volatile than earnings per share.
(B) Even if earnings per share are negative, book value will almost always be positive.
(C) The traditional financial sheet fully accounts for intangible assets like human capital.
(D) The P/B multiple is immune to differences in business strategies and asset requirements.

Oct/Nov 2013

70. When conducting a comprehensive analysis of the subject company, which of the following points are typically focused on?
I. The company's product catalogue and market sectors
II. The availability of inputs and prices of those inputs
III. Technological potential as well as manufacturing capacity
IV. Capability and motivation on the part of the manager
V. Access to capital, leverage, and liquidity in the market
(A) I, II, III, and V only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

May/June 2015

71. Which of the following is NOT an element in the denominator of the EV/EBIT multiple when adjusted for taxes (EV / EBIT (1 - Tax))?
(A) Operating income after tax
(B) Non-operating income after tax
(C) Net operating profit after tax (NOPAT)
(D) Earnings before interest and taxes adjusted for the tax rate

Oct/Nov 2005

72. Consider the following factors that make identifying comparable companies challenging:
I. Companies operate at variable capacity levels.
II. Companies cater to a variety of customer bases.
III. Most companies are involved in a diverse range of industries.
IV. Intangible assets are perfectly quantified on all balance sheets.
V. Subjective evaluation is always required to select peers.
Which of the above statement(s) is/are correct?
(A) I, II, III, and V only
(B) I, II, and III only
(C) II, III, IV, and V only
(D) I, II, III, IV, and V

May/June 2009

73. Alpha Corp has a Return on Equity (ROE) of 18 percent and its cost of equity (r) is 14 percent. The company's dividend payout ratio is 0.4 and its retention ratio (b) is 0.6. Based on the fundamental determinants equation, what is the P/E multiple for Alpha Corp? (Assuming g = ROE × b)
(A) 9.5
(B) 10.0
(C) 12.5
(D) 15.0

Oct/Nov 2020

74. Pegasus Airlines requires massive capital investments in aircraft, leading to high depreciation charges. Their net income is highly volatile, but pre-tax operational cash flow is steady. Based on standard valuation guidance on choosing multiples, which valuation multiple should an analyst primarily utilize to evaluate Pegasus Airlines?
(A) P/E multiple
(B) P/B multiple
(C) PEG multiple
(D) EV/EBITDA multiple

NODIA

May/June 2020

61. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option.
Assertion (A): The liquidation value approach pays no attention to organizational capital.
Reason (R): The liquidation value approach assumes the company is valued as a collection of separately sold dead assets rather than as a going concern with synergy.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2007

62. Lambda Limited's WACC is 18 percent and its expected growth rate (g) is 12 percent. Calculate the fundamental EV/FCFF multiple for Lambda Limited.
(A) 16.67
(B) 10.00
(C) 12.50
(D) 20.00

May/June 2024

63. What is the typical definition of the price-to-earnings (P/E) multiple?
(A) Earnings per share divided by Market price per share
(B) Market value of equity divided by Book value of assets
(C) Enterprise value divided by Earnings per share
(D) Market price per share divided by Earnings per share

Oct/Nov 2014

64. Match the modified multiples in List I to their respective companion variables in List II:
List I: Modified Multiples
P. Price-to-Earnings (P/E)
Q. Price-to-Book (P/B)
R. Price-to-Sales (P/S)
S. Value Ratio
List II: Companion Variables
1. Return on Equity (ROE)
2. Growth rate (g)
3. Multiple of P/B to ROE
4. Net Profit Margin (NPM)
(A) P-1, Q-2, R-3, S-4
(B) P-4, Q-3, R-1, S-2
(C) P-2, Q-1, R-4, S-3
(D) P-3, Q-4, R-2, S-1

May/June 2006

65. Regarding the Bludgeon View approach, consider the following statements:
I. Arriving at a range of values generated by different multiples.
II. Computing a straightforward average of the many values produced.
III. Calculating a weighted average of the values.
IV. Selecting only the single variable with the highest statistical correlation.
Which of the above statement(s) is/are correct?
(A) II, III, and IV only
(B) I, II, and III only
(C) I, II, and IV only
(D) I, II, III, and IV

Oct/Nov 2019

66. Consider the following statements about the Stock and Debt Approach:
I. It determines firm value by adding the current market value of all outstanding securities (equity and debt).
II. It requires the company's securities to be traded on a public exchange for precise market values.
Which of the above statement(s) is/are correct?
(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

May/June 2010

67. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option.
Assertion (A): It makes no economic sense to use the P/E ratio when a company's earnings per share (EPS) is in the red (negative).
Reason (R): The P/S (Price to Sales) multiple can be utilized in situations where EPS is negative, as sales are almost certainly positive.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

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May/June 2022

53. What is the most significant shortcoming of the liquidation value approach?
(A) It ignores synergy and values the firm as separate dead assets.
(B) It tends to overvalue tangible assets when sold on the secondary market.
(C) It assumes all assets will be sold at a significant premium over book value.
(D) It is only effective for firms that are currently operating at peak efficiency.

Oct/Nov 2010

54. Which of the following statements regarding equity multiples is correct?
(A) With equity multiples, market value is scaled exclusively to enterprise value.
(B) Multiples remain constant regardless of country or time period.
(C) Greater growth, lower risk, and higher payout ratios should result in higher multiples of earnings.
(D) The price-book value ratio is entirely independent of a firm's predicted pay-out ratio.

May/June 2008

55. Beta Limited boasts an ROE of 30 percent, a growth rate (g) of 10 percent, and a required rate of return by equity investors (r) of 15 percent. Its dividend payout ratio (1 - b) is 0.6. Using the fundamental perspective formula for the P/B multiple, calculate Beta Limited's P/B multiple.
(A) 2.50
(B) 4.20
(C) 3.00
(D) 3.60

Oct/Nov 2025

56. Consider the following statements regarding the identification of analogous businesses:
I. Finding comparable companies is straightforward because most companies operate in identical industries with identical capacity levels.
II. Analysts typically look carefully at 10 to 15 companies in the same industry and choose at least three to four that come as close as feasible to the subject company.
Which of the above statement(s) is/are correct?
(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

May/June 2017

57. What is the primary definition of relative valuation as used in non-DCF valuation models?
(A) It values an asset based on its internal cash flow generation capabilities.
(B) It estimates value based on the market prices of comparable assets.
(C) It values an asset by analyzing the sum of its independent parts.
(D) It values a firm by discounting projected future cash flows at a set rate.

Oct/Nov 2009

58. How is Enterprise Value (EV) calculated in terms of market values?
(A) Market Value of Equity + Market Value of Debt + Cash
(B) Market Value of Equity - Market Value of Debt - Cash
(C) Market Value of Equity - Market Value of Debt + Cash
(D) Market Value of Equity + Market Value of Debt - Cash

May/June 2013

59. Regarding the determination of a company's value using balance sheet information, consider the following statements:
I. The investor claim approach performs a direct tally of the book values of the investor claims.
II. The asset-liability approach subtracts claims from parties other than investors from the total inventory of assets.
Which of the above statement(s) is/are correct?
(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

NODIA

Oct/Nov 2015

60. Which of the following is NOT an alternative to the Discounted Cash Flow (DCF) method?
(A) Relative Valuation Model
(B) Equity Valuation Multiples Model
(C) Contingent Claim Valuation Model
(D) Book Value Approach Model

May/June 2012

75. Identify the incorrect pairing of enterprise value multiples with their definitions:
(A) EV/FCFF - Focuses on free cash flow to equity
(B) EV/EBITDA - Focuses on earnings before interest, taxes, depreciation, and amortization
(C) EV/BV - Focuses on book value of assets
(D) EV/Sales - Focuses on sales or revenues

Oct/Nov 2011

76. Which valuation approach is described as the least complicated method, relying primarily on the data shown in a company's balance sheet?
(A) Discounted Cash Flow Valuation
(B) Relative Valuation Model
(C) Dividend Discount Model
(D) Book Value Approach Model

May/June 2018

77. Match the valuation approaches in List I to their corresponding descriptions in List II:
List I: Valuation Approach/Concept
P. Earnings multiples control method
Q. Equity multiples scaling
R. Stock and debt approach
S. Value of an asset in relative valuation
List II: Description
1. Market approach summing outstanding securities
2. Compared to pricing of comparable assets
3. Scales market value to net income, book value, or revenues
4. Uses statistical methods to account for differences
(A) P-1, Q-2, R-3, S-4
(B) P-4, Q-3, R-1, S-2
(C) P-3, Q-4, R-2, S-1
(D) P-2, Q-1, R-4, S-3

Oct/Nov 2008

78. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option.
Assertion (A): The unadjusted book value approach is highly applicable and widely recommended for valuing modern tech companies.
Reason (R): Modern tech companies derive the majority of their value from tangible resources rather than organizational capital or intangibles.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2021

79. Kappa Company has a tax rate of 25 percent and a reinvestment rate of 60 percent. The company's WACC is 14 percent and its growth rate is 8 percent. Using the fundamental determinants, calculate the EV/EBIT multiple for Kappa Company.
(A) 4.00
(B) 6.25
(C) 7.50
(D) 5.00

Oct/Nov 2017

80. Consider the following statements regarding the adoption of the P/S multiple:
I. Sales are not as susceptible to manipulation compared to earnings per share and book value.
II. Sales will almost certainly be in the black even if EPS is in the red.
III. Revenues generally exhibit greater consistency over time as they are heavily affected by financial leverage.
Which of the above statement(s) is/are correct?
(A) II and III only
(B) I and III only
(C) I, II, and III
(D) I and II only

May/June 2016

81. According to the "Cynical View" of selecting multiples:
(A) The analyst selects the specific multiple that yields the most conservative and lowest value.
(B) The analyst computes a simple arithmetic average of all values produced by different ratios.
(C) The analyst chooses the multiple that fits their desired valuation outcome.
(D) The analyst regresses multiples against fundamentals to determine the most accurate model.

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(D) Earnings multiples can be compared across a carefully defined group of comparable organisations.

May/June 2021

38. Gamma Inc has a Net Profit Margin (NPM) of 8 percent, a growth rate (g) of 12 percent, and a dividend pay-out ratio of 0.5. The required rate of return (r) is 16 percent. Applying the basic P/S determinant formula, what is Gamma Inc's P/S multiple?
(A) 0.84
(B) 1.50
(C) 1.12
(D) 2.24

Oct/Nov 2017

39. Identify the correct pair representing the fundamental categories of valuation multiples:
(A) Stock valuation multiples - Price-book value ratio
(B) Stock valuation multiples - EV-sales ratio
(C) Enterprise valuation multiples - Price-sales ratio
(D) Enterprise valuation multiples - Price-earnings ratio

May/June 2016

40. What is the primary reason for deducting cash from the firm value when calculating the EV-to-EBITDA multiple?
(A) To intentionally lower the enterprise value and make the firm appear cheaper to buyers.
(B) To avoid overstatement, as cash interest income is excluded from EBITDA.
(C) Because cash holdings do not contribute to the payment of dividends to shareholders.
(D) To adjust for the depreciation and amortization of physical assets acquired with cash.

Oct/Nov 2024

41. Which individual is credited with the observation that "the lay reader of financial statements usually believes that the total asset figure of the balance sheet is indicative... of the value of the company"?
(A) Stephen Penman
(B) Benjamin Graham
(C) Mortimer B. Daniels
(D) Aswath Damodaran

May/June 2007

42. When an analyst broadens the definition of a comparable firm to include the entire industry or market, what method must they use to account for differences in fundamentals?
(A) Arbitrary deduction
(B) Statistical methods
(C) The bludgeon view average
(D) The liquidation value adjustment

May/June 2014

43. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option.
Assertion (A): The stock and debt approach requires adjusting the book values of individual assets based on inflation and technological obsolescence.
Reason (R): The stock and debt approach determines firm value by adding up the current market values of the company's outstanding equity and debt securities.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2021

44. Micron Company has an ROIC of 22 percent, a growth rate of 8 percent, and a WACC of 15 percent. Calculate the EV/BV multiple from the fundamental angle.
(A) 1.50
(B) 2.00
(C) 2.50
(D) 3.00

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May/June 2025

45. Consider the following statements regarding the fundamental determinants of the P/E multiple:
I. Dividend payout ratio
II. Cost of equity
III. Return on equity
IV. Ploughback ratio
Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, II, III, and IV

May/June 2011

88. How are non-operating assets generally evaluated under the adjusted book value approach?
(A) Based on their initial historical purchase cost
(B) Based on their true value in the market
(C) They are completely excluded from the valuation
(D) Based entirely on standard depreciation tables

Oct/Nov 2023

89. Match the multiples in List I to their potential downsides or characteristics in List II:
List I: Multiple/Approach
P. P/E Multiple
Q. P/B Multiple
R. Liquidation Value Approach
S. Unadjusted Book Value
List II: Downsides/Characteristics
1. Pays no attention to organisational capital
2. Earnings may be negative or highly irregular
3. Only applicable in extremely unusual circumstances like regulated industries
4. Discrepancy widened by inflation and technical advancements
(A) P-4, Q-2, R-3, S-1
(B) P-2, Q-4, R-1, S-3
(C) P-1, Q-3, R-2, S-4
(D) P-2, Q-1, R-4, S-3

May/June 2005

90. Analyst Maya is evaluating Company Z. She finds three comparable firms. The EV-EBITDA multiples for these firms are 4.0, 5.0, and 6.0. The EV-Sales multiples are 1.0, 1.5, and 2.0. Company Z has an EBITDA of Rs. 200 crore and Sales of Rs. 600 crore. If Maya calculates the average multiple for each metric and applies it to Company Z, what will be the two resulting Enterprise Value (EV) estimates?
(A) EV based on EBITDA = Rs. 1000 crore; EV based on Sales = Rs. 900 crore
(B) EV based on EBITDA = Rs. 800 crore; EV based on Sales = Rs. 1200 crore
(C) EV based on EBITDA = Rs. 1200 crore; EV based on Sales = Rs. 600 crore
(D) EV based on EBITDA = Rs. 1000 crore; EV based on Sales = Rs. 1050 crore

Oct/Nov 2018

91. According to the Stock and Debt approach, a firm is being valued. The firm has 40 crore shares outstanding trading at Rs. 150 each. The firm also has outstanding bonds with a face value of Rs. 2000 crore, but they are currently trading at a 10% discount in the market (i.e., market value is Rs. 1800 crore). What is the total firm value?
(A) Rs. 4000 crore
(B) Rs. 6000 crore
(C) Rs. 7800 crore
(D) Rs. 8000 crore

May/June 2019

92. Regarding the behavior of relative PEs and market growth rates, consider the following statements:
I. The spread in price-to-earnings ratios widens as the anticipated market growth rate climbs.
II. A company growing at half the market rate (4%) trades at approx 80% of the market PE.
III. When market growth reaches 10%, the same company trades at 60% of the market PE.
IV. High market growth makes stocks with slower earnings growth look cheap on a relative PE basis.
V. Low market growth makes the stocks of same companies often look costly.
Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) I, III, IV, and V only
(C) I, II, III, IV, and V
(D) II, IV, and V only

Oct/Nov 2016

93. Match the multiple selection strategy in List I to its description in List II:
List I: Multiple Selection Strategy
P. Fundamental Method
Q. Statistical Method
R. Bludgeon View
S. Cynical View
List II: Description
1. Selects the multiple providing the highest/lowest value to fit an agenda
2. Averages out values from various multiples
3. Uses the variable with the highest association with company worth
4. Regresses each multiple against fundamentals based on R-squared
(A) P-3, Q-4, R-2, S-1

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directly influence the valuation multiple applied to assets.

36. (C) I, II, and III only
Asset-based valuation faces several significant challenges, particularly when dealing with non-traded assets that lack transparent market prices. Additionally, market inefficiencies may cause listed prices to deviate from true intrinsic value, and the worth of an asset in its current use can differ from its liquidation value. Furthermore, identifying and accurately appraising omitted intangible assets remains a complex and imprecise task.

37. (C) Most investors perfectly understand how price and book value relate without any ambiguity.
The application of valuation multiples is a complex process that requires a deep understanding of the relationship between price, book value, and earnings. It is incorrect to assume that most investors understand these connections without ambiguity, as different interpretations often lead to market volatility. Careful analysis is necessary to control for fundamental differences and avoid erroneous conclusions when comparing organizations.

38. (C) 1.12
A company's price-to-sales multiple can be derived from its net profit margin, dividend payout ratio, and growth expectations. By multiplying the margin and payout ratio, adjusted for growth, and then dividing by the difference between the required return and growth rate, analysts can determine the fundamental multiple. This relationship highlights how profitability and reinvestment choices drive market sales valuations.

39. (A) Stock valuation multiples - Price-book value ratio
Valuation multiples are generally divided into two primary categories based on whether they measure equity or the entire firm. Stock valuation multiples, such as the price-to-book value ratio and price-earnings ratio, focus on the claims of equity holders. In contrast, enterprise valuation multiples relate the total value of the business to operational metrics like sales or EBITDA.

40. (B) To avoid overstatement, as cash interest income is excluded from EBITDA.
When calculating the enterprise value for use in the EV-to-EBITDA multiple, analysts deduct cash to maintain consistency between the numerator and the denominator. Because EBITDA excludes interest income generated by cash holdings, including that cash in the firm's total value would lead to an overstatement. This adjustment ensures that the resulting multiple accurately reflects the value of core operations.

41. (C) Mortimer B. Daniels
Historical financial literature often highlights the common misconception that the total assets listed on a balance sheet directly represent the value of a company. Mortimer B. Daniels is credited with observing that the average reader of financial statements typically makes this erroneous assumption. This insight emphasizes the importance of moving beyond simple book values to more sophisticated valuation techniques.

42. (B) Statistical methods
When an analyst expands the definition of comparable firms to include an entire industry or the broader market, simple direct comparisons become less reliable. To account for significant differences in fundamental variables like growth and risk, statistical methods such as regression analysis must be employed. These techniques allow for a more nuanced and accurate determination of appropriate valuation multiples.

43. (D) Assertion (A) is false, but Reason (R) is true.
The stock and debt approach determines the total value of a firm by summing the current market prices of all its outstanding equity and debt securities. Unlike the adjusted book value method, it does not involve revaluing individual physical assets for inflation or obsolescence. Instead, it relies on the market's aggregate assessment of the company's total worth as reflected in security prices.

44. (B) 2.00
The enterprise value to book value multiple can be calculated from a fundamental perspective by examining the relationship between the return on invested capital and the cost of capital. By

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May/June 2013

100. Place the steps/elements of calculating Net Asset Value (NAV) under the Adjusted Book Value Approach in the correct sequential order:

I. Determine the value of total assets including cash holdings

II. Add replacement cost of physical assets to value of shareholdings and other assets

III. Divide NAV by the number of outstanding shares

IV. Subtract outstanding debt to arrive at Net Asset Value

(A) I, II, III, IV

(B) II, I, IV, III

(C) IV, I, II, III

(D) II, IV, I, III

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18. (C) $(1+g) \times$ (1-reinvestment rate)
The enterprise value to sales multiple is fundamentally determined by a firm's after-tax operating margin and its reinvestment requirements. In the standard formula, the operating margin is adjusted by a factor that accounts for the expected growth rate and the portion of earnings not reinvested. This relationship demonstrates how efficiency and growth potential directly translate into market valuation multiples.

19. (D) Value is created through novel asset combinations, making the whole greater than the sum.
Synergy represents the incremental value created when two or more assets are combined in a way that their joint performance exceeds the sum of their individual parts. This concept is difficult to price accurately because the specific benefits of novel asset combinations are often unique and unpredictable. Consequently, traditional valuation models frequently struggle to quantify these complex organizational interactions.

20. (C) Management has absolutely no leeway to alter EPS under generally accepted accounting principles.
While the price-earnings multiple is a cornerstone of investment analysis, it is subject to several practical limitations. One major concern is that management often possesses significant leeway to alter reported earnings per share through various accounting choices while still remaining within generally accepted principles. This flexibility can lead to volatile or non-recurring components that complicate the determination of intrinsic value.

21. (B) PEG = 1.25, Appears overvalued
The price-to-earnings growth ratio provides a standardized way to compare companies with different growth profiles. By dividing the price-earnings ratio by the expected annual growth rate, investors can gauge relative value. A ratio exceeding one suggests that the market price may be high relative to the company's earnings potential, indicating that the stock could be considered overvalued.

22. (C) I, II, III, and IV
The enterprise value to EBITDA multiple is driven by several fundamental financial variables that define a firm's cash flow profile. These determinants include the return on invested capital, the anticipated growth rate, and the applicable corporate tax rate. Additionally, the weighted average cost of capital plays a crucial role in discounting future expectations to arrive at a current market multiple.

23. (D) I and II only
Discrepancies between book and market values often arise due to the limitations of historical cost accounting and the pace of technological change. Inflation can significantly devalue historical costs over time, while technical advancements may render assets obsolete before they are fully depreciated. Furthermore, many critical components, such as organizational capital, are typically omitted from the balance sheet entirely.

24. (A) Price-to-earnings - Enterprise value
Valuation multiples must maintain consistency between the numerator and the denominator regarding the claims on the business. Equity multiples, such as the price-to-earnings ratio, scale the market value of equity to metrics like net income or book value. In contrast, enterprise value multiples relate the total value of the firm to operational metrics that represent all capital providers.

25. (B) 1.375
Calculating the enterprise value to sales multiple requires integrating operating margins with reinvestment and growth assumptions. The formula applies the after-tax margin to the non-reinvested portion of income, adjusted for growth, and then divides the result by the spread between the cost of capital and the growth rate. This provides a comprehensive view of how operational efficiency drives firm value.

26. (A) Only I is correct
The price-to-book value multiple utilizes a denominator derived directly from the balance sheet, representing a snapshot of a company's net worth at a specific point in time. When calculating the book value per share, analysts must focus on the funds attributable to equity shareholders. This requires subtracting preference capital from total shareholders' funds to ensure the metric reflects common equity.

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9. (B) Rs. 60 lakhs
Relative valuation logic assumes that similar assets should be priced proportionally based on a common unit of measure. In this scenario, the price per acre is determined by dividing the total sale price of a comparable plot by its size. Applying this derived unit price to the new plot's acreage allows for a straightforward estimation of its market value.

10. (B) Rs. 190
To determine the net asset value per share using the adjusted book value approach, all organizational assets must be tallied and liabilities subtracted. The calculation combines the replacement cost of physical assets, the value of subsidiary stakes, and cash holdings, then deducts outstanding debt. Dividing this total net value by the number of outstanding shares provides the per-share valuation.

11. (B) Statistical data shows market returns are not strongly tied to price-to-book ratios.
The price-to-book multiple has several limitations, particularly in its treatment of intangible assets like brand equity and intellectual property. Furthermore, the reliance on historical cost accounting means that inflation often creates a significant gap between book and market values. However, statistical evidence generally indicates that market returns are indeed strongly correlated with price-to-book ratios over long time horizons.

12. (A) The average relative PE ratio is 1.
Relative price-earnings ratios provide a method for comparing a specific company's valuation against the broader market average. While actual price-earnings ratios can vary wildly across different sectors and time periods, the distribution of relative ratios is mathematically anchored. Specifically, the average relative price-earnings ratio for the entire market will always be equal to one by definition.

13. (C) There is a high degree of correlation between current earnings and value in cyclical companies.
The fundamental method for selecting a valuation multiple identifies the financial variable most closely associated with a company's total worth. For stable consumer product firms, earnings-based multiples are highly appropriate due to consistent revenue streams. However, cyclical companies exhibit low correlation between current earnings and intrinsic value because their profits fluctuate significantly throughout the economic cycle, making P/E ratios unreliable.

14. (A) I, II, III, IV, and V
A firm's price-to-book value ratio is influenced by several critical financial determinants that reflect its future potential and risk profile. Key factors include the predicted dividend payout ratio, the expected rate of profit growth, and the overall riskiness of the business. Additionally, higher internal returns typically lead to higher ratios, while lower returns result in depressed book value multiples.

15. (D) Assertion (A) is false, but Reason (R) is true.
The cynical view of valuation assumes that the selection of multiples is driven by subjective objectives rather than objective statistical analysis. Analysts using this perspective choose the specific ratio that supports their preconceived notions of value, whether high or low. This contrast with the fundamental method, which focuses on selecting variables with the highest statistical correlation to actual firm worth.

16. (B) 5.76
Determining the enterprise value to EBITDA multiple involves analyzing fundamental drivers such as the tax rate, growth expectations, and the return on invested capital. By incorporating the weighted average cost of capital and the impact of depreciation and amortization, analysts can derive a theoretically sound multiple. This approach ensures that the valuation reflects the company's underlying efficiency and capital structure.

17. (A) Dan Ariely
Behavioral economists have significantly influenced valuation theory by highlighting how human psychology affects financial decision-making. Dan Ariely observed that people rarely make choices in absolute terms, preferring instead to evaluate options relative to comparable benchmarks. This insight provides a psychological foundation for the widespread use of relative valuation multiples in professional investment analysis and market pricing.

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ignores the organizational capital and synergy that exist in a going concern. Consequently, it often provides a floor valuation that significantly underestimates the worth of a functional business.

54. (C) Greater growth, lower risk, and higher payout ratios should result in higher multiples of earnings.
Equity multiples are dynamic financial tools that scale market value to metrics like net income or book value. Their magnitude is influenced by several fundamental factors, including growth expectations, risk levels, and dividend payout policies. Generally, firms with stronger growth prospects, lower perceived risk, and higher payout ratios will command more generous earnings multiples in the eyes of market participants.

55. (D) 3.60
The price-to-book multiple can be derived fundamentally by evaluating the return on equity in relation to the required return and growth. By multiplying the return on equity by the dividend payout ratio and dividing the result by the spread between the discount rate and the growth rate, analysts determine the multiple. This reflects how a firm's internal profitability generates value for its shareholders.

56. (B) Only II is correct
Finding truly comparable companies is a complex task because most firms operate across diverse industries and at varying capacity levels. Instead of assuming identical peers exist, analysts typically perform a detailed review of ten to fifteen candidates within the same sector. They then select three or four businesses that most closely align with the subject company's operational and financial profile.

57. (B) It estimates value based on the market prices of comparable assets.
Relative valuation is a method of estimating the worth of an asset based on how similar assets are currently priced in the marketplace. This approach differs from discounted cash flow models, which focus on internal income generation. By using standardized multiples to compare peer groups, analysts can determine whether a specific business is fairly valued relative to its industry competitors.

58. (D) Market Value of Equity + Market Value of Debt - Cash
Enterprise value is a comprehensive measure of a company's total market worth, representing the theoretical cost to acquire the entire business. It is calculated by adding the market value of equity and the market value of all interest-bearing debt, then subtracting cash and cash equivalents. This subtraction accounts for the fact that a buyer could use the company's own cash to offset the acquisition cost.

59. (C) Both I and II are correct
Determining a company's value from its balance sheet can be approached from two primary perspectives. The investor claim approach involves a direct summation of the book values of all claims held by investors. Alternatively, the asset-liability approach starts with the total inventory of assets and subtracts all claims from non-investor parties. Both methods aim to isolate the value attributable to the firm's providers of capital.

60. (C) Contingent Claim Valuation Model
Financial analysts use several distinct frameworks for valuing assets, with discounted cash flow models being the most prominent. While relative valuation, equity multiples, and book value approaches serve as common alternatives, contingent claim valuation represents a separate category based on option pricing. These diverse models allow professionals to cross-verify value estimates using different mathematical and conceptual starting points.

61. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The liquidation value approach is unique because it explicitly ignores the organizational capital and synergy inherent in a functioning business. This method assumes the company is being dismantled and its components sold as separate dead assets. Consequently, it provides a conservative valuation that does not reflect the added value created when assets work together in an active, going-concern environment.

62. (A) 16.67
The fundamental enterprise value to free cash flow to the firm multiple is determined by the

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27. (C) II, IV, I, V, III
Performing a rigorous relative valuation involves a specific sequence of analytical steps to ensure accuracy. The process begins by conducting thorough research on the subject organization, followed by the identification of truly analogous businesses. Once comparable firms are selected, analysts determine the appropriate multiples, calculate those metrics for the peer group, and finally establish the subject company's value.

28. (C) The projected free cash flow to firm over a ten-year horizon using DCF
A comprehensive analysis of a subject company focusing on market dynamics, operational margins, and intangible assets like reputation is essential for relative valuation. These factors help define the firm's competitive position and risk profile. However, performing a detailed ten-year discounted cash flow projection is generally considered a separate valuation exercise rather than a component of the initial relative assessment.

29. (D) Undervalued if the PEG multiple is less than 1
The price-to-earnings growth ratio serves as a popular rule of thumb for assessing stock valuation in relation to future earnings potential. Investors generally perceive a stock as undervalued if its PEG ratio is less than one, suggesting that the growth rate exceeds the price-earnings multiple. Conversely, ratios significantly above one may indicate that the stock is currently overvalued by the market.

30. (A) Young companies without a track record of positive profitability - EV/sales multiple
Selecting the most appropriate valuation multiple depends heavily on the specific financial characteristics and industry of the firm being evaluated. For young companies that have not yet achieved consistent profitability, the enterprise value to sales multiple is often the only viable metric. Other multiples, like price-to-earnings or EV to EBITDA, are better suited for mature firms with established income streams.

31. (C) Greater growth and lower risk should result in higher multiples of earnings.
Equity multiples relate the market price of a stock to its underlying financial performance, such as earnings or book value. Fundamental valuation principles dictate that companies exhibiting higher growth rates and lower risk profiles should command higher multiples in the marketplace. These metrics are not fixed but vary significantly based on time, geographic location, and specific organizational fundamentals.

32. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
EBITDA multiples are particularly effective for valuing stable companies where the primary value resides in existing tangible assets. This metric provides a clear view of the pre-tax cash flows generated by operations without the distortions caused by varying capital expenditure requirements or interest payments. Consequently, it offers a consistent basis for comparing the operational efficiency of firms across the same industry.

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33. (B) Rs. 650 crore
Enterprise value represents the total market value of a business as an operating entity, accessible to both debt and equity holders. It is calculated by summing the market value of outstanding equity and the market value of interest-bearing debt, then subtracting cash and cash equivalents. This adjustment for cash reflects its role as an asset that can effectively reduce the purchase price.

34. (B) 1934
The formal introduction of the price-earnings multiple as a primary tool for equity valuation occurred in foundational investment literature published in 1934. This period marked a significant shift in financial analysis, moving toward more standardized methods of comparing stock prices to corporate earnings. Since its introduction, the P/E ratio has become one of the most widely recognized metrics in global finance.

35. (A) WACC - g
In the fundamental determinants formula for enterprise value to the book value of assets, the denominator represents the spread between the cost of capital and growth. Specifically, the weighted average cost of capital minus the expected growth rate is used to discount the firm's future potential. This mathematical structure demonstrates how risk and growth dynamics

(B) P-4, Q-3, R-1, S-2
(C) P-3, Q-2, R-4, S-1
(D) P-1, Q-4, R-2, S-3

May/June 2022

94. Match the inventory and asset valuation concepts in List I to their descriptions in List II:
List I: Inventory and Asset Types
P. Work-in-process
Q. Finished goods
R. Intangible fixed assets
S. Non-Operating Assets
List II: Descriptions
1. Valued at fair market price (e.g., software, licenses)
2. Cost of raw materials plus processing cost
3. Deducting expenses for packaging and selling from expected sale price
4. Financial securities and excess land not essential to day-to-day operations
(A) P-1, Q-2, R-4, S-3
(B) P-3, Q-4, R-2, S-1
(C) P-4, Q-1, R-3, S-2
(D) P-2, Q-3, R-1, S-4

Oct/Nov 2010

95. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option.
Assertion (A): EV/FCFF multiples are more suited for young companies that have not yet established a track record of positive profitability.
Reason (R): Free Cash Flow to Firm (FCFF) is highly volatile and frequently negative when a company is expanding quickly and making major capital investments.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2008

96. Iota Corp has an EBITDA of Rs. 500 crore, EBIT of Rs. 400 crore, and a tax rate of 30%. In the current year, capital expenditures (CAPEX) amount to Rs. 120 crore, and net working capital (NWC) increased by Rs. 30 crore. What is the Free Cash Flow to Firm (FCFF) for Iota Corp?
(A) Rs. 260 crore
(B) Rs. 350 crore
(C) Rs. 230 crore
(D) Rs. 470 crore

Oct/Nov 2025

97. What is generally accepted as a benchmark P/S multiple for comparison purposes across all businesses?
(A) 0.5
(B) 1.0
(C) 1.5
(D) 2.0

May/June 2017

98. Match the valuation multiples in List I to their respective categories in List II:
List I: Valuation Multiples
P. Price-earnings ratio
Q. EV-FCFF ratio
R. Price-book value ratio
S. EV-EBITDA ratio
List II: Categories
1. Enterprise Valuation Multiple
2. Enterprise Valuation Multiple
3. Stock Valuation Multiple
4. Stock Valuation Multiple
(A) P-1, Q-3, R-2, S-4
(B) P-4, Q-2, R-3, S-1
(C) P-2, Q-4, R-1, S-3
(D) P-3, Q-1, R-4, S-2

Oct/Nov 2009

99. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option.
Assertion (A): The difference between an asset's book value and its current market value will widen as a result of inflation.
Reason (R): Book value is derived by subtracting historical depreciation from the historical cost, inherently failing to account for inflation.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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dividing the spread between the ROIC and the growth rate by the spread between the WACC and the growth rate, analysts can determine the appropriate multiple for a firm's assets.

45. (C) I, II, III, and IV
Several fundamental financial metrics combine to determine the price-earnings multiple of a company. These include the dividend payout ratio, the cost of equity, and the return on equity. Additionally, the ploughback ratio, which represents the portion of earnings retained for reinvestment, plays a vital role in shaping the growth expectations that ultimately drive the market's valuation of earnings.

46. (B) P/E ratio divided by the anticipated earnings per share growth rate.
The price-to-earnings growth ratio is a specialized metric used to evaluate the fairness of a stock's price relative to its profit potential. It is defined as the current price-earnings ratio divided by the anticipated annual growth rate in earnings per share. This ratio helps investors compare companies that may have very different growth prospects but similar current earnings multiples.

47. (D) P-3, Q-4, R-2, S-1
Selecting the optimal valuation multiple requires matching the specific characteristics of a company with the strengths of the metric. The price-earnings multiple is best for firms with established track records, while the PEG ratio suits companies with stable growth rates. Financial institutions are typically valued using the price-to-book multiple, whereas enterprise value to cash flow multiples apply to stable capital-intensive firms.

48. (A) I and II only
An analyst's choice of valuation approach is primarily dictated by the fundamental financial characteristics of the company being assessed. Key factors include the current level of earnings, the potential for future growth, and the stability of the firm's debt and dividend policies. Non-financial metrics, such as the size of administrative departments, generally do not influence the selection of valuation methodologies.

49. (D) Assertion (A) is false, but Reason (R) is true.
While the price-to-earnings growth ratio is a valuable tool for identifying potential investment opportunities, a ratio of less than one does not guarantee that a stock is overvalued. In fact, conventional market logic often suggests the opposite, viewing low PEG ratios as a sign of undervaluation. The ratio remains a simple mathematical relationship between the price-earnings multiple and the expected growth rate.

50. (B) 16
Relative valuation models often use standardized logic to adjust for differences in growth rates compared to the broader market. If a company's growth is significantly lower than the market average, its relative price-earnings ratio is typically discounted. By applying the anticipated percentage of the market PE to the current market average, analysts can estimate a fair trading multiple for the firm.

51. (A) Current stock price divided by trailing twelve-month revenue per share.
The price-to-sales multiple is a valuation metric that relates a company's stock price to its revenue generation. It is determined by dividing the current market price per share by the company's total revenue per share over the trailing twelve-month period. This multiple is particularly useful for evaluating companies with negative earnings that still possess significant market share and revenue.

52. (B) EBIT × (1 - Tax)
Net operating profit after tax is a key component in enterprise value multiples, representing the earnings available to all capital providers after corporate taxes. It is mathematically represented by multiplying earnings before interest and taxes by the complement of the tax rate. This adjustment ensures that the valuation reflects the firm's true operational profitability independent of its capital structure.

53. (A) It ignores synergy and values the firm as separate dead assets.
The liquidation value approach possesses a significant limitation because it assumes a company is a collection of separately sold dead assets. By valuing each component individually in a non-operating state, this method completely

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ANSWERS

1. (D) I, II, and III
Valuation professionals employ several distinct perspectives when selecting appropriate multiples for asset assessment. The cynical view uses multiples to support a predetermined value, while the bludgeon view averages various results. Conversely, the best multiple view identifies the variable most statistically correlated with value. Each approach offers a different philosophical framework for determining corporate worth within financial markets.

2. (C) P-4, Q-3, R-1, S-2
Asset-based valuation techniques vary significantly depending on the intended context and industry type. The unadjusted book value approach is often reserved for regulated industries like utilities. In contrast, the liquidation value approach assumes assets are sold individually in a non-operating state. Replacement cost assigns value based on current physical substitution, while adjusted book value recalibrates tangible resources.

3. (B) P-3, Q-1, R-4, S-2
Financial parameters rely on specific formulas to assess firm performance and equity value. Free cash flow to the firm is derived by adjusting EBITDA for taxes, capital expenditures, and working capital changes. Meanwhile, EBITDA simply adds depreciation and amortization back to operating income. Book value per share focuses on equity available to common shareholders divided by outstanding shares.

4. (D) 20.0
The value ratio is a modified multiple that helps investors understand the relationship between a firm's market price and its internal performance metrics. By dividing the price-to-book ratio by the return on equity, analysts can identify if a stock is trading at a premium relative to its profitability. This calculation provides a normalized metric for comparing different firms.

5. (B) Predicted EPS for the current year
The price-earnings multiple is a forward-looking valuation tool used to estimate the value of a company's equity. While historical data exists, analysts typically focus on the predicted earnings per share for the current financial year to reflect future expectations. This approach aligns the current market price with the immediate anticipated profitability, which drives most investment decisions.

6. (D) FCFF = EBITDA – (T x EBIT) - CAPEX – change in NWC
Calculating free cash flow to the firm involves adjusting earnings before interest, taxes, depreciation, and amortization for several non-cash and investment-related items. Specifically, one must subtract the cash tax payments on operating income, total capital expenditures, and any increases in net working capital. This result represents the actual cash available to all capital providers after necessary reinvestments.

7. (A) Finished goods are valued by adding profit to raw material costs.
Under the adjusted book value approach, inventory valuation follows specific conservative principles to ensure accuracy. While raw materials are recorded at cost, finished goods are typically valued by subtracting selling and packaging expenses from the anticipated sale price. This method incorporates the profit earned during the production phase and reflects the realistic net realizable value of assets available for sale.

8. (B) I, II, and III only
Comparing valuation multiples across different organizations requires careful control for fundamental differences in risk and growth. Failure to adjust for these variables often leads to erroneous conclusions and inaccurate pricing. Specifically, analysts might inadvertently overvalue a high-risk company or undervalue a high-growth business. Achieving perfect synergy assessment is statistically unlikely through simple multiple comparisons without rigorous adjustments.

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relationship between the cost of capital and the expected growth rate. By calculating the inverse of the spread between the weighted average cost of capital and the growth rate, analysts can derive the appropriate multiple. This highlights how risk and future prospects dictate the market's current valuation.

63. (D) Market price per share divided by Earnings per share
The price-to-earnings multiple is perhaps the most widely utilized metric in equity valuation. It is defined as the current market price per share divided by the earnings per share generated by the company. This ratio provides a simple way for investors to understand how much they are paying for each unit of the company's current or projected profitability.

64. (C) P-2, Q-1, R-4, S-3
Analysts often modify standard valuation multiples by pairing them with specific companion variables to gain deeper insights. The price-earnings multiple is frequently evaluated alongside the growth rate, while the price-to-book multiple is compared to the return on equity. Similarly, the price-to-sales multiple relates to the net profit margin, and the value ratio itself incorporates the relationship between book value and profitability.

65. (B) I, II, and III only
The bludgeon view is a valuation strategy that seeks to mitigate the errors associated with using a single multiple by incorporating several different metrics. This approach involves calculating a range of values produced by various ratios and then computing either a straightforward or a weighted average. It contrasts with more targeted methods that rely on selecting the single most statistically relevant variable for valuation.

66. (C) Both I and II are correct
The stock and debt approach is a market-based valuation method that aggregates the current trading values of a company's outstanding equity and debt. This technique requires that the company's securities be actively traded on public exchanges to ensure that precise market values are available. It provides a direct measurement of how the market currently values all capital claims against the firm's assets.

67. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Using the price-earnings ratio is economically illogical when a company's earnings per share are negative, as the resulting multiple would be meaningless. In such scenarios, analysts often turn to the price-to-sales multiple because revenues remain positive even when profits do not. While both statements are financially sound and related to negative earnings, one does not serve as the causal explanation for the other.

68. (C) 0.75
A relative price-earnings ratio compares the valuation of an individual firm to the broader market average. It is calculated by dividing the specific firm's price-earnings ratio by the current average price-earnings ratio of the entire market. This metric helps investors determine if a stock is trading at a premium or a discount relative to the general market sentiment.

69. (B) Even if earnings per share are negative, book value will almost always be positive.
The widespread use of the price-to-book multiple is partly due to its stability and availability compared to earnings-based metrics. While earnings per share can frequently turn negative during economic downturns or periods of restructuring, a company's book value almost always remains positive. This consistency allows analysts to maintain a continuous valuation framework even when profitability is temporarily disrupted.

70. (D) I, II, III, IV, and V
A thorough analysis of a subject company involves examining a wide array of operational and financial factors. Analysts must consider the firm's product catalogue, market dynamics, and input availability alongside manufacturing capacity and technological potential. Furthermore, assessing management's capability and motivation, as well as the company's access to capital and liquidity, is essential for a complete understanding of its intrinsic and relative value.

71. (B) Non-operating income after tax
When calculating enterprise value multiples adjusted for taxes, the denominator focuses strictly on operating metrics. This includes

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(C) Discounted Cash Flow Valuation Approach
(D) Relative Valuation Approach

May/June 2021

28. Which equation is used to calculate the Expected Reinvestment required to generate growth based on revenues?
(A) Expected Change in Revenue / (Sales/ Capital)
(B) Expected Change in Revenue × (Sales/ Capital)
(C) Total Revenue / Return on Equity
(D) Change in Revenue × Expected Operating Margin

Oct/Nov 2009

29. Which of the following statements regarding the valuation of intangible assets is incorrect?
(A) Accounting standards often grossly underestimate the value of intangible assets or ignore them.
(B) Franchises grant the owner the right to promote a branded service under the franchise's name.
(C) Adding a brand premium after a DCF valuation is the recommended way to avoid under-valuation.
(D) The value of copyrights is determined by cash flows produced by holding the exclusive right.

May/June 2007

30. What is a primary structural reason why financial institutions consistently pay out a far larger portion of their profits as dividends compared to manufacturing companies?
(A) Financial institutions are prohibited from retaining more than ten percent of earnings.
(B) Financial institutions possess fewer operating leases and lack outstanding options.
(C) Financial institutions experience negative margins offset by dividend distributions.
(D) Financial institutions require lower net capital expenditures than manufacturing firms.

Oct/Nov 2025

31. Arrange the following historical events concerning the strategic decline of Kodak in the correct chronological order:
I. Kodak stock hit $0.54 per share.
II. Kodak declared it would end the sales of classic film cameras.
III. Kodak fell off the S&P 500 index.
IV. Kodak's move to end classic film cameras made 15,000 workers redundant.
(A) II, IV, III, I
(B) III, II, IV, I
(C) II, III, I, IV
(D) IV, II, III, I

May/June 2009

32. Which of the following pairs regarding the special features of financial service companies is incorrectly matched?
(A) Capital Adequacy Norms — A regulatory feature dictating the choice of financial mix
(B) Cost of Equity — Calculated strictly by un-levering and re-levering historical regression betas
(C) Reinvestment Measurement — Difficult to determine due to the nature of debt and capital in the sector
(D) Dividend Yields — Significantly higher compared to comparable statistics for the rest of the market

Oct/Nov 2019

33. What is the most appropriate strategy to estimate the cost of debt for a new start-up company that currently lacks a formal credit rating and has negative operating income?
(A) Use the prevailing risk-free rate as the de-facto cost of debt regardless of the firm's risk.
(B) Estimate a synthetic rating based on a predicted interest coverage ratio using future income.
(C) Substitute the average dividend yield of manufacturing firms in place of the firm's debt rate.
(D) Assign the highest possible AAA rating assuming the firm will reach stable growth in a year.

May/June 2018

34. Consider the following statements regarding the inputs to the Dividend Discount Model for financial service companies:
I. Analysts bypass the stage of un-levering and re-levering betas for financial service firms because their capital structures tend to be similar and are highly levered.

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a continuous basis for valuation. Furthermore, revenues are generally more consistent over time as they are not directly impacted by changes in a firm's financial leverage.

81. (C) The analyst chooses the multiple that fits their desired valuation outcome.
The cynical view of choosing multiples is characterized by the subjective selection of metrics to achieve a specific valuation outcome. Analysts adopting this perspective do not seek the most statistically accurate variable, but rather the one that supports their predetermined goals. This might involve picking the multiple that results in either the highest or lowest possible value to suit a particular client or transaction.

82. (B) I, II, III, and V only
Asset-based valuation is often hindered by the limitations of traditional accounting practices and the dynamics of the modern economy. Inflation can significantly widen the gap between an asset's historical book value and its current worth, while technological changes can cause rapid obsolescence. Additionally, the omission of organizational capital and the difficulty of appraising intangibles make identifying a company's true value a complex challenge.

83. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Relative valuation is frequently used as a practical alternative to the more complex discounted cash flow method. While the two strategies are based on different immediate processes, DCF theory provides the underlying conceptual foundation for the drivers of relative multiples. Although they are complementary and often used together to triangulate value, one does not exclusively explain the existence of the other in all contexts.

84. (A) 25.0
The multiple of price-to-sales to net profit margin is a specialized tool used to normalize valuation across firms with different profitability levels. By dividing the price-to-sales ratio by the net profit margin, analysts can identify if a company's market price is justified by its efficiency. This calculation helps in comparing the relative value of firms within the same revenue-generating sector.

85. (D) Empirical data indicates that stocks with a high price-to-earnings ratio typically outperform the market.
While the price-earnings multiple is an essential tool for assessing investment value, empirical data often contradicts common perceptions. While many believe high P/E stocks are superior, historical evidence frequently shows that stocks with lower ratios tend to outperform the broader market over time. Additionally, the utility of the ratio is limited when earnings are negative or heavily influenced by non-recurring accounting items.

86. (C) II and III only
Estimating the final value of a business requires a balanced approach that combines mathematical calculations with professional judgment. While analysts can compute arithmetic averages of values derived from different multiples, they must also take a judgmental view. This involves comparing the subject company's specific growth prospects, risk characteristics, and size against those of its peer group to refine the final valuation estimate.

87. (B) Only II is correct
EBITDA is often favored by analysts because it provides a relatively stable measurement of the pre-tax cash flows created by a company's existing assets. In contrast, free cash flow to the firm tends to be more volatile due to the inclusion of variable capital expenditures and changes in working capital. This makes EBITDA a more consistent metric for evaluating operational performance across different periods.

88. (B) Based on their true value in the market
In the adjusted book value approach, non-operating assets such as financial securities and excess land are treated differently than core operational assets. Rather than relying on historical cost or standard depreciation schedules, these items are evaluated based on their true market value. This ensures that the total valuation reflects the current cash-equivalent worth of all resources held by the organization.

89. (B) P-2, Q-4, R-1, S-3
Every valuation multiple and approach possesses specific downsides that analysts must navigate. The price-earnings multiple is problematic when

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earnings are irregular or negative, while the price-to-book multiple is distorted by inflation. Liquidation value ignores the synergy of an operating business, and unadjusted book value is generally restricted to specific contexts like regulated industries where asset costs are closely monitored.

90. (A) EV based on EBITDA = Rs. 1000 crore; EV based on Sales = Rs. 900 crore
To estimate the enterprise value using multiple metrics, an analyst first calculates the average multiple for each chosen financial category from a set of comparable firms. Applying these average ratios to the subject company's actual EBITDA and sales figures provides two independent value estimates. In this case, the resulting valuations are one thousand crore and nine hundred crore, respectively.

91. (C) Rs. 7800 crore
The stock and debt approach determines a firm's total value by calculating the aggregate market worth of its financial claims. This involves multiplying the number of outstanding shares by their current market price and adding the actual market value of outstanding bonds. This method relies on the market's current appraisal of all equity and debt instruments rather than their historical or face values.

92. (C) I, II, III, IV, and V
The relationship between relative price-earnings ratios and market growth is dynamic and interconnected. As anticipated market growth climbs, the spread in these ratios typically widens. High market growth can make companies with slower earnings look inexpensive on a relative basis, whereas low market growth may cause the same firms to appear costly. These shifts reflect how broader economic expectations influence individual stock valuations.

93. (A) P-3, Q-4, R-2, S-1
Selecting the right valuation multiple involves different philosophical and statistical strategies. The fundamental method seeks variables with the highest association with company worth, while the statistical method uses regression based on R-squared values. The bludgeon view simply averages results from multiple metrics. Finally, the cynical view prioritizes multiples that produce a specific value to fit a preconceived agenda or objective.

94. (D) P-2, Q-3, R-1, S-4
Accurately valuing diverse asset types requires specific accounting treatments under the adjusted book value method. Work-in-process is valued at raw material cost plus processing expenses, while finished goods are based on expected sale prices minus distribution costs. Intangible assets like licenses are recorded at fair market prices, and non-operating assets include excess land and financial securities not needed for core operations.

95. (D) Assertion (A) is false, but Reason (R) is true.
Enterprise value to free cash flow multiples are generally unsuitable for young companies due to the high volatility and often negative nature of their cash flows during expansion. These businesses typically require significant capital investments, which can obscure their long-term potential when using cash flow-based ratios. Consequently, analysts often prefer sales-based multiples for valuing firms that have not yet achieved consistent profitability.

96. (C) Rs. 230 crore
Free cash flow to the firm is calculated by adjusting after-tax operating income for non-cash charges and reinvestment needs. After determining the net operating profit after tax and adding back depreciation, analysts must subtract capital expenditures and any increases in net working capital. This final figure represents the actual cash available to satisfy both debt and equity holders of the corporation.

97. (B) 1.0
In the field of relative valuation, the price-to-sales multiple of one is widely accepted as a standard benchmark for comparison across various businesses. This baseline helps investors quickly assess whether a company is trading at a premium or a discount relative to its revenue generation. While industry-specific averages vary, this universal midpoint serves as a starting point for more detailed analysis.

98. (D) P-3, Q-1, R-4, S-2
Valuation multiples are categorized based on whether they assess the value of equity or the

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entire business entity. Stock valuation multiples, including the price-earnings and price-to-book ratios, specifically focus on the claims of common shareholders. Enterprise valuation multiples, such as those based on EBITDA or free cash flow to the firm, provide a comprehensive view of the total value available to all investors.

99. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The gap between an asset's book value and its current market worth typically increases during periods of inflation. This occurs because book value is calculated using historical costs and depreciation, which fail to account for the rising prices of replacement assets. Consequently, traditional balance sheet figures often significantly underestimate the actual economic value of a firm's physical resources in a modern market environment.

100. (B) II, I, IV, III
Calculating net asset value per share under the adjusted book value approach requires a systematic consolidation of all company resources. The process begins by combining the replacement cost of physical assets with the value of shareholdings. Analysts then determine the total asset value including cash, subtract outstanding debt to find the net asset value, and finally divide by the total shares outstanding.

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CHAPTER 16

Special Cases of Valuation

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Oct/Nov 2015

1. What was the trading value of Kodak's stock per share in September 2011 shortly after the company fell off the S&P 500 index?
(A) $0.54
(B) $5.50
(C) $15.40
(D) $32.50

May/June 2012

2. Which of the following statements is correct regarding the normalisation of earnings for cyclical firms?
(A) Normalization must assume that company earnings will require a decade to recover to baseline.
(B) Taking an average of absolute rupee earnings is accurate for companies that grew significantly.
(C) The goal is to replace negative earnings with normalized profits representing a typical year.
(D) Normalized earnings ignore the return on investment or profit margins from preceding periods.

Oct/Nov 2008

3. In a stable growth state, which formula correctly computes the expected reinvestment rate of a firm?
(A) Sales-to-Capital Ratio / Expected Growth (Stable)
(B) Expected Return on Equity / Cost of Capital (Stable)
(C) Expected Growth (Stable) / Expected Return on Capital (Stable)
(D) Change in Revenue / Sales-to-Capital Ratio

May/June 2019

4. Which of the following statements about valuing cyclical firms is incorrect?
(A) Adjusting the expected growth rate in the near term is one potential remedy for reflecting cyclical swings in valuation.
(B) Cyclical businesses typically record poor profitability at the bottom of an economic cycle but rebound swiftly when the economy improves.
(C) Normalising net income by applying average margins to current revenues is highly susceptible to manipulation and should be avoided entirely.
(D) The turning-point years are defined as those when the economy enters or exits an economic downturn.

Oct/Nov 2021

5. What rationale justifies the application of standard risk and return models to real estate investments despite the argument that the required investment size prevents diversification?
(A) Real estate is inherently risk-free, making diversification unnecessary for the typical marginal investor.
(B) Securitization allows real estate to be subdivided, enabling investors to hold diversified portfolios.
(C) Regulatory environments fix land returns, effectively negating any significant variance in cash flows.
(D) Properties have infinite lifespans, removing non-diversifiable risk within standard pricing models.

May/June 2025

6. The core steps involved in the analysis framework for evaluating a fledgling or start-up enterprise include all of the following, EXCEPT:
(A) Assessment of the Enterprise's Current Standing
(B) Calculating the Unlevered Beta for Cash Holdings
(C) Revenue Growth Estimation
(D) Stable-growth Associated Operating Margin Estimation

Oct/Nov 2011

7. In the context of corporate regulations, how is an asset having a monetary value but lacking physical form, such as software purchased for a computer system, officially classified?
(A) Tangible current asset
(B) Intangible fixed asset
(C) Non-operating liquid asset
(D) Fictitious asset

May/June 2010

8. Which of the following statements accurately describes the Capital Investment approach to valuing an intangible asset like a brand name?
(A) It requires calculating the percentage of cash flows attributable to the brand and discounting them.
(B) It involves capitalizing historical advertising costs to determine the current unamortized balance.
(C) It involves comparing the firm's value to similar companies that currently lack the brand name.
(D) It requires separating legal monitoring costs from the margin and projecting a terminal value.

Oct/Nov 2023

9. Which of the following statements about real estate investment risk and return models is incorrect?
(A) The risk of any asset, whether real or financial, is defined as the percentage of that asset's variance that cannot be diversified away.
(B) The value of a real estate asset rises in proportion to the risk level when all other factors are held constant.
(C) The use of the CAPM makes the assumption that the marginal investor in the real estate asset has a good level of diversification.
(D) Institutional investors in stock markets frequently possess the resources to diversify, similar to the marginal investors who drive pricing in securitized real estate markets.

May/June 2008

10. When factoring in the risk of failure for a start-up company, the Value of the Firm is calculated as the Probability of surviving as a going concern multiplied by the Discounted Cash Flow of the Firm, plus which of the following?
(A) (1 – Probability of surviving as a going concern) × Expected Reinvestment Rate
(B) (Probability of surviving as a going concern) × Distress or Liquidation sale value
(C) (1 – Probability of surviving as a going concern) × Distress or Liquidation sale value
(D) (Probability of failure) × Expected Return on Capital

Oct/Nov 2017

11. Financial service firms create money through specific channels that divide them into broad groups. These groups include all of the following income generation methods, EXCEPT:
(A) A bank makes money through the margin between the interest paid to funders and interest charged to borrowers.
(B) An investment bank earns fees by advising and helping non-financial enterprises raise funds or complete acquisitions.
(C) Wealth managers generate income from advising fees, portfolio management, and sales.
(D) Insurers make money exclusively through venture capital funding derived from external equity markets.

May/June 2006

12. In the valuation of equity for highly levered distressed firms, what is meant by the assertion that equity is a "residual claim"?
(A) Equity holders have a guaranteed right to fixed interest payments prior to debt settlement.
(B) Equity holders are immune to bankruptcy and can recover their full initial investment upon liquidation.
(C) Equity holders are only entitled to cash remaining after all other financial claimholders have been paid off.
(D) Equity holders possess a superior claim to the firm's non-operating liquid assets over bondholders.

Oct/Nov 2014

13. Which of the following statements correctly identifies a challenge inherent in the analysis framework for valuing start-up firms?
(A) Most of these firms have limited histories, typically spanning only one or two years of data.

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(B) They operate in mature sectors where industry averages are detached from technological reality.
(C) There is an overabundance of historical financial data that complicates trend analysis tasks.
(D) Start-ups feature positive operating earnings, making the sales-to-capital ratio redundant.

May/June 2013

14. Why does the standard expected growth equation (Expected Growth = Reinvestment rate × Return on Capital) become problematic when applied to young start-up companies?
(A) These companies are subject to heavy industry regulation, which artificially depresses their internal return on equity.
(B) These firms possess significant volumes of historical data that conflict with future-oriented reinvestment estimates.
(C) Start-ups often have negative operating earnings, making the standard return on capital formula impossible to apply.
(D) The formula requires a positive terminal value, which young companies rarely achieve within their first five years of operation.

Oct/Nov 2005

15. The special features of financial services companies that differentiate them from other businesses include all of the following, EXCEPT:
(A) Heavily Regulated Sector
(B) Difficulty in measuring reinvestment
(C) Issues faced for income estimation due to Provisioning for Losses
(D) Exemption from capital adequacy norms

May/June 2017

16. How is the non-diversifiable risk of an asset defined and quantified within the framework of the capital asset pricing model (CAPM)?
(A) By the market beta in relation to the market portfolio
(B) By the expected growth rate of dividends over a stable period
(C) By the sales-to-capital ratio of the respective industry
(D) By the predicted interest coverage ratio of the firm

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Oct/Nov 2012

17. Which of the following statements concerning the strategic issues faced by firms like Kodak and Xerox is incorrect?
(A) Kodak ended the sales of classic film cameras in 2004, which led to a rapid recovery and dominance in the digital camera market by 2011.
(B) Kodak spent a decade promoting film cameras instead of imitating the competition in digital photography.
(C) Xerox successfully invented much of the technology that changed the world but failed to notice and use emerging technologies that replaced copiers.
(D) Kodak's management committee continued to rely on film cameras, ignoring feedback from the media and the market.

May/June 2005

18. How many distinct approaches are established for isolating and putting a monetary value on intangible assets that do not provide cash flows on their own but enable higher product pricing?
(A) Two approaches
(B) Three approaches
(C) Four approaches
(D) Five approaches

Oct/Nov 2024

19. Which of the following statements accurately reflects the treatment of cash in a consolidated valuation approach?
(A) The growth rate should reflect growth strictly in operating earnings, excluding earnings from cash.
(B) The accounting returns should be measured using non-cash earnings, with cash netted from the capital measure.
(C) Reinvestment should only be considered in operating assets, wholly excluding cash.
(D) The present value of the cash flows already includes cash, so cash must not be added again at the end.

May/June 2014

20. When viewing equity as a call option in a highly levered distressed firm, what is the counterintuitive effect of increased risk (variance) on the equity value?
(A) Risk raises equity value by increasing the probability that asset values will exceed

outstanding debt.
(B) Risk necessitates higher capital expenditures, which significantly dilutes the remaining equity value.
(C) Risk accelerates the bankruptcy process, thereby completely eliminating any remaining equity value.
(D) Risk reduces the expected operating margin, keeping the total equity value at a perpetual level of zero.

Oct/Nov 2007

21. The primary economic motivations for individuals or businesses to hold money (cash) include all of the following, EXCEPT:
(A) For daily operational transactions
(B) As protection against unplanned expenses
(C) To bypass capital adequacy regulations
(D) For speculative purposes

May/June 2011

22. What percentage of the market value of the S&P 500 was accounted for by intangible assets according to market updates as of July 2020?
(A) 17%
(B) 50%
(C) 84%
(D) 90%

Oct/Nov 2020

23. Why is attempting to use the traditional discounted cash flow valuation method complex when applied to trademarks and copyrights?
(A) These assets possess indefinite legal lifespans, making a terminal value impossible to quantify.
(B) Significant legal costs to enforce exclusivity usually negate any positive cash flows generated.
(C) Asset revenues are classified as fictitious assets on the balance sheet under modern standards.
(D) These assets offer exclusive rights for a finite period, precluding the inclusion of a terminal value.

May/June 2024

24. Which of the following statements regarding the estimation of parameters for financial service companies is incorrect?
(A) The bank payout ratio is calculated by dividing the dividend by the firm's total net earnings.
(B) The composite payout ratio adds money paid in dividends to stock buybacks for a better image.
(C) Financial institutions attract steady-payout investors, making it difficult to alter policies.
(D) Financial firms have varied capital structures, requiring analysts to re-lever historical betas.

Oct/Nov 2018

25. Which of the following statements correctly characterises the comparison between real estate and financial assets?
(A) Real estate investments always have an endless lifespan, just like publicly traded stocks.
(B) The terminal value of a building may decrease as it is used, while the land component has an endless life.
(C) The value of real estate is inversely proportional to the volume of cash flows and their growth rate.
(D) Risk and return models like CAPM are structurally incompatible with real estate due to extreme liquidity.

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May/June 2022

26. Based on the fundamental principles of accounting related to corporate valuation, what distinguishes a capital expense from an operating expense?
(A) Capital expenses generate tax-deductible depreciation; operating expenses are deducted in the current period.
(B) Capital expenses involve tangible infrastructure; operating expenses involve day-to-day administrative costs.
(C) Capital expenses apply to cash-intensive projects; operating expenses apply strictly to credit-based systems.
(D) Capital expenses offer multi-year benefits; operating expenses provide benefits only in the current year.

Oct/Nov 2013

27. The distinct approaches to arrive at an estimate of the worth of intangible assets that do not provide cash flows on their own include all of the following, EXCEPT:
(A) Liquidation Sale Value Approach
(B) Capital Investment Approach

earnings before interest and taxes adjusted for the tax rate, also known as net operating profit after tax. Non-operating income is excluded because the multiple is designed to reflect the value generated by the firm's core business activities rather than its peripheral financial investments.

72. (A) I, II, III, and V only
Identifying truly comparable peer groups is difficult due to the diverse nature of modern businesses. Companies often operate in multiple industries, serve different customer bases, and maintain variable capacity levels. Additionally, the subjective nature of peer selection and the poor quantification of intangible assets on balance sheets further complicate the process. Consequently, analysts must use significant judgment to select the most appropriate firms for comparison.

73. (C) 12.5
The fundamental price-earnings multiple is determined by the dividend payout ratio and the spread between the required return and the growth rate. In this calculation, the growth rate is derived from the product of the return on equity and the retention ratio. Dividing the payout ratio by the difference between the discount rate and this growth rate provides the fair market multiple.

74. (D) EV/EBITDA multiple
For companies with significant capital investments and high depreciation charges, such as airlines, traditional earnings-based multiples can be highly misleading. In these cases, the enterprise value to EBITDA multiple is preferred because it focuses on steady pre-tax operational cash flows. This metric provides a more consistent basis for valuation by removing the volatility associated with non-cash expenses and complex capital structures.

75. (A) EV/FCFF - Focuses on free cash flow to equity
Enterprise value multiples are designed to relate the total value of the firm to various operational and asset-based metrics. The enterprise value to free cash flow to the firm ratio specifically focuses on the cash available to all capital providers, not just equity holders. Incorrectly pairing this with free cash flow to equity violates the principle of consistency required for accurate valuation multiples.

76. (D) Book Value Approach Model
The book value approach is considered the least complicated method of valuation because it relies primarily on historical data recorded in a company's balance sheet. By focusing on the recorded costs and net worth of the business, it avoids the complex forecasting and assumptions required by cash flow models. However, its simplicity often comes at the expense of reflecting current market realities.

77. (B) P-4, Q-3, R-1, S-2
Different valuation methods offer unique ways to conceptualize firm value. The stock and debt approach sums the values of outstanding securities, while relative valuation compares an asset to similar market peers. Equity multiples scale market value to internal financial metrics. To ensure accuracy when comparing firms, analysts use statistical methods to control for fundamental differences in earnings, risk, and growth.

78. (D) Assertion (A) is false, but Reason (R) is true.
The unadjusted book value approach is generally unsuitable for valuing modern technology companies, which derive most of their worth from intangible assets. These firms rely on intellectual property and human capital, components that are rarely captured accurately on traditional balance sheets. Consequently, historical cost-based metrics fail to reflect the competitive advantages and future potential that drive the market value of the tech sector.

79. (D) 5.00
Calculating the fundamental enterprise value to EBIT multiple requires adjusting for taxes and reinvestment needs. The formula incorporates the corporate tax rate and the portion of income that must be reinvested to sustain growth. By dividing the after-tax, non-reinvested income by the spread between the weighted average cost of capital and the growth rate, analysts can determine the appropriate valuation multiple.

80. (D) I and II only
The price-to-sales multiple is often preferred because revenue figures are less susceptible to management manipulation than earnings or book values. Sales tend to remain positive even when a company is reporting losses, providing

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II. The historical correlation between a financial service company's past earnings growth and its anticipated future earnings growth used to be far lower than for other types of companies.

Which of the above statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2016

35. Match the underlying issue causing negative earnings in List I with its corresponding symptom in List II.

List I: Underlying Issue

P. Momentary Challenges
Q. Industry-Wide Issues
R. Strategic Issues
S. Operating Issues

List II: Symptom

1. Transitory occurrences such as a strike or an adverse legal verdict
2. Inherent instability tied to economic cycles and commodity price fluctuations
3. Maintaining obsolete machinery and bearing disproportionately high labour expenses
4. Persistent failures like ignoring emerging technologies or choosing incorrect target audiences

(A) P-1, Q-2, R-4, S-3
(B) P-2, Q-1, R-3, S-4
(C) P-4, Q-3, R-2, S-1
(D) P-3, Q-4, R-1, S-2

May/June 2015

36. Consider the following statements regarding the estimation of risk and discount rates for start-up firms:

I. The bottom-up approach determines current risk parameters by looking at the averages of comparable companies that have been listed for at least two years.
II. A start-up's negative operating income generally results in a negative interest coverage ratio and a default rating.
III. As a young company grows toward sustainable margins, its cost of debt should remain unchanged indefinitely to preserve the model's baseline.

Which of the above statement(s) is/are correct?

(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) All I, II, and III

Oct/Nov 2010

37. What is the most appropriate method to establish the current risk parameters (beta) for a young start-up company that has been publicly listed but possesses very little historical data?

(A) Utilizing the bottom-up approach by looking at the averages of comparable companies listed for at least two years.
(B) Running a conventional regression of the start-up's daily stock returns against the market index over the past ten years.
(C) Applying a beta of zero since the historical variance cannot be quantitatively diversified.
(D) Measuring the composite payout ratio to directly derive the risk premium.

May/June 2016

38. Match the component of a highly levered distressed firm in List I with its structural equivalent in a financial call option in List II.

List I: Distressed Firm Component

P. The company itself
Q. Face amount of the outstanding debt
R. Liquidation of the company
S. Payoff to equity on liquidation (if asset value > debt)

List II: Call Option Equivalent

1. The underlying asset
2. The exercise price
3. The exercise of the option
4. The intrinsic value captured by the option holder

(A) P-1, Q-2, R-3, S-4
(B) P-2, Q-1, R-4, S-3
(C) P-3, Q-4, R-1, S-2
(D) P-4, Q-3, R-2, S-1

Oct/Nov 2022

39. Consider the following statements regarding the valuation of real estate assets:

I. Because real estate cash flows are anticipated to continue indefinitely, the terminal value of a building is generally guaranteed to be significantly higher than its current value.
II. Even substantial real estate investments can be subdivided into smaller parcels through

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Q. ROE (Return on Equity)
R. Composite Payout Ratio
S. Net Capital Expenditures

List II: Role

1. Typically lower for banks, leading to a larger portion of net income being distributed as dividends
2. A measurement of the equity that is reinvested back into the firm
3. Acts as an accurate indicator of investment quality since financial assets are marked to market
4. Adds the amount of money paid in dividends to the amount paid out in stock buybacks

(A) P-2, Q-3, R-4, S-1
(B) P-4, Q-1, R-2, S-3
(C) P-1, Q-2, R-3, S-4
(D) P-3, Q-4, R-1, S-2

Oct/Nov 2016

51. Consider the following statements regarding the specific features of financial service firms:

I. The retention ratio in a bank measures the amount of equity that is reinvested back into the firm.
II. In terms of valuation, the return on equity (ROE) is a highly accurate indicator of investment quality for financial assets because they are likely to be marked up to market value.
III. Financial service firms typically pay out a much smaller portion of their profits as dividends compared to manufacturing companies.

Which of the above statement(s) is/are correct?

(A) Only I and II
(B) Only I and III
(C) Only II and III
(D) All I, II, and III

May/June 2005

52. Arrange the following steps for evaluating a fledgling or start-up enterprise in the correct sequential order:

I. Risk and Discount Rate Estimates
II. Firm valuation
III. Assessment of the Enterprise's Current Standing
IV. Revenue Growth Estimation
V. Stable-growth Associated Operating Margin Estimation

(A) III, IV, V, I, II
(B) I, III, IV, V, II
(C) III, V, IV, II, I
(D) IV, III, V, I, II

Oct/Nov 2013

53. Match the type of financial service firm in List I with its primary mechanism of income generation in List II.

List I: Financial Service Firm

P. Commercial Bank
Q. Insurer
R. Investment Bank
S. Wealth Manager

List II: Income Mechanism

1. Advises and helps non-financial enterprises raise funds or complete acquisitions
2. Earns advising fees, portfolio management fees, and sales commissions
3. Profits from the margin between interest paid to funders and interest charged to borrowers
4. Collects premiums from claim buyers and earns investment portfolio revenue

(A) P-3, Q-4, R-1, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-3, R-2, S-1
(D) P-2, Q-1, R-4, S-3

May/June 2022

54. Consider the following statements regarding the estimation of risk parameters for start-up firms:

I. Young companies publicly listed for only a few months provide sufficient historical data to solely rely on traditional regression to estimate risk parameters.
II. If a new company is in debt and unrated, an analyst can estimate a synthetic rating based on a predicted interest coverage ratio derived from expected operational income.

Which of the above statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2019

55. Which of the following pairs concerning the Separate Valuation approach for cash is correctly matched?

(A) Unlevered Beta — Unlevered beta of just the operating assets
(B) Objective — Value the firm as a whole with

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(D) P-2, Q-1, R-4, S-3

Oct/Nov 2005

45. Consider the following statements regarding the differences between real estate and financial assets:

I. When all other factors are held constant, the value of an asset is proportional to the volume of cash flows and their growth rate.

II. Real estate investments frequently have limited lifespans, contrasting with publicly traded stocks that might exist forever.

III. The land component of a real estate investment has an endless life and can be the most important factor in determining terminal value.

Which of the above statement(s) is/are correct?

(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) All I, II, and III

May/June 2009

46. When a start-up enterprise declares losses primarily because a significant amount of operational expenses are incurred in anticipation of future growth, what is the most appropriate analytical action to determine true product profitability?

(A) Increase the sales-to-capital ratio proportionately to offset the reported operational losses.
(B) Capitalize operational expenses instead of expensing them in the current profit and loss statement.
(C) Deduct liquid non-operating assets from firm debt to boost reported earnings artificially.
(D) Apply a distress sale discount to expenses to estimate the normalized operating margin value.

Oct/Nov 2011

47. Consider the following statements regarding companies facing long-term strategic issues:

I. Certain historically dominant firms lost substantial market share because management relied on obsolete technology and disregarded market feedback regarding digital transitions.

II. Historical cases show firms experiencing falling return on equity when ceding major business segments, such as personal computer operating systems, to competitors.

Which of the above statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2021

48. Match the type of intangible asset in List I with its corresponding characteristic in List II.

List I: Asset Type

P. Software purchased for computer systems
Q. Spectrum purchased by a telecom company
R. Undeveloped patents
S. Brand name

List II: Characteristic

1. Intangible fixed asset with monetary value
2. Have the potential to generate cash flows in the future but do not do so right now
3. Collectively generate cash flows but are far more difficult to single out and value on their own
4. Asset having monetary value but is intangible in form

(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-4, R-3, S-2
(C) P-4, Q-1, R-3, S-2
(D) P-3, Q-2, R-1, S-4

Oct/Nov 2014

49. Which of the following pairs detailing reasons for a firm's negative earnings is incorrectly matched?

(A) Momentary Challenges — Persistent macroeconomic recessions spanning ten years
(B) Strategic Issues — Incorrect product mixes or poorly targeted marketing methods
(C) Operating Issues — Failure to stay up with times, replace assets, and keep up with recent technologies
(D) Quality of Management — A senior team unwilling to embrace necessary operational turnaround changes

May/June 2013

50. Match the specific mathematical variable or concept in List I with its role in financial service firm valuation in List II.

List I: Mathematical Variable

P. Retention Ratio

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(A) Only I, II, III, and IV
(B) Only I, III, IV, and V
(C) Only II, III, IV, and V
(D) All I, II, III, IV, and V

Oct/Nov 2008

71. In the Apex Commercial Bank scenario, after assessing the fair market value of the loan portfolio (the firm's assets) via asset-based valuation, what is the required next step to estimate the value of the bank's equity?
(A) Deduct the value of any outstanding debt and deposits.
(B) Add the firm's historical stock buybacks over the past five years.
(C) Multiply the asset value by the firm's expected Return on Equity (ROE).
(D) Re-lever the historical beta using the market index returns.

May/June 2014

72. Consider the following statements differentiating the Consolidated and Separate Valuation approaches for cash holdings:
I. Under the Separate approach, the unlevered beta is based solely on operating assets.
II. Under the Consolidated approach, earnings should include interest income from cash and marketable securities.
III. Under the Separate approach, the final present value of cash flows requires cash to be added to the value of operating assets.
IV. Under the Consolidated approach, reinvestment should only be considered for operating assets, excluding cash entirely.
Which of the above statement(s) is/are correct?
(A) Only I, II, and III
(B) Only I, III, and IV
(C) Only II, III, and IV
(D) All I, II, III, and IV

Oct/Nov 2022

73. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question selecting the appropriate option:
Assertion (A): Equity in a highly levered distressed firm commands a positive value even if the total value of the firm's assets falls significantly below the face value of the outstanding debt.
Reason (R): Because of the time premium remaining until debt maturity and limited liability, equity investors possess a residual claim analogous to a call option on the underlying firm.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2018

74. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question selecting the appropriate option:
Assertion (A): Real estate developers who insist on higher expected returns due to a lack of diversification will find their investments increasingly held by Real Estate Investment Trusts (REITs) and corporations.
Reason (R): REITs and corporations attract more diversified investors, allowing them to require lower expected returns from those investors.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2021

75. Omega Steel operates in a developed market and is reporting substantial negative earnings. An analysis reveals that the company's plants feature machinery manufactured three decades ago, and its unionised workforce earns significantly higher wages than competitors. The management is reluctant to replace machinery or lay off workers due to union contracts and social pressure. Under which category of issues causing negative earnings does Omega Steel's predicament primarily fall?
(A) Momentary Challenges
(B) Cyclical Industry-Wide Issues
(C) Distressed Asset Cross-holdings
(D) Operating Issues

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cash as part of the assets
(C) Reinvestment — Should consider reinvestment in both operating assets and cash
(D) Accounting returns — Inclusive of cash and interest income

May/June 2008

56. When an insurance company is evaluated using the asset-based valuation method, what is the most appropriate sequence of actions to determine the value of the equity?
(A) Value the current policies and then deduct predicted claims and other outstanding debt.
(B) Capitalize advertising expenses, add cash holdings, and ignore all outstanding policies.
(C) Calculate the composite payout ratio and multiply it by the historical earnings growth.
(D) Discount anticipated dividends to perpetuity without accounting for future policy claims.

Oct/Nov 2007

57. Consider the following statements regarding the Capital Investment approach for valuing a brand name:
I. It requires identifying advertising expenditures throughout time, capitalising them, and examining the unamortised balance today.
II. It is considered the most subjective of the three main approaches to valuing intangible assets.
III. The resulting metric from this method may not match or even come close to the asset's actual market value.
Which of the above statement(s) is/are correct?
(A) Only I and II
(B) Only I and III
(C) Only II and III
(D) All I, II, and III

May/June 2007

58. Match the step in valuing start-up firms in List I with its primary focus area in List II.
List I: Step
P. Assessment of Current Standing
Q. Revenue Growth Estimation
R. Stable-growth Operating Margin Estimation
S. Estimating Reinvestment
List II: Focus Area
1. Using trailing 12 months data instead of solely the most recent financial year
2. Analysing the company's genuine competitors and treating operational expenses as capital expenses
3. Utilizing a sales-to-capital ratio due to negative operating earnings
4. Examining historical percentage increases and the rate of expansion in the general market
(A) P-1, Q-4, R-2, S-3
(B) P-2, Q-3, R-4, S-1
(C) P-3, Q-1, R-2, S-4
(D) P-4, Q-2, R-1, S-3

NODIA

Oct/Nov 2025

59. Consider the following statements regarding the valuation of intangible assets:
I. Adding a premium for a brand name after already using DCF valuation is considered double counting.
II. Market studies observed that global economic conditions in 2020 accelerated the trend of increasing intangible asset market value share.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2011

60. Match the specific category of firm in List I with its defining characteristic or valuation challenge in List II.
List I: Firm Category
P. Start-up Firms
Q. Financial Service Companies
R. Distressed Firms
S. Cyclical Firms
List II: Characteristic/Challenge
1. Equity functions similarly to a call option due to substantial debt and limited liability
2. Evaluated heavily using payout ratios, dividend discount models, and asset-based valuation
3. Earnings are erratic over time, requiring normalisation to reflect a typical year
4. Suffer from informational constraints and rely on trailing 12 months data
(A) P-4, Q-2, R-1, S-3
(B) P-1, Q-4, R-3, S-2

(C) P-2, Q-3, R-4, S-1
(D) P-3, Q-1, R-2, S-4

Oct/Nov 2020

61. Consider the following statements regarding risk and return in real estate versus financial assets:

I. Both asset categories share the principle that value is proportional to the volume of cash flows, growth rate, and level of risk.
II. The capital asset pricing model assumes the marginal investor in an asset has a good level of diversification.
III. Critics argue real estate investors cannot diversify due to the size of required investments and the necessity of localised expertise.
IV. Real estate investments cannot be subdivided or securitized, firmly preventing any form of portfolio diversification.
V. Increasing securitization allows institutional investors to hold real estate investments alongside financial assets in diverse portfolios.

Which of the above statement(s) is/are correct?
(A) Only I, II, III, and V
(B) Only I, II, IV, and V
(C) Only II, III, IV, and V
(D) All I, II, III, IV, and V

May/June 2024

62. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question selecting the appropriate option:

Assertion (A): Under the Consolidated Valuation approach, an analyst must strictly add the value of cash holdings to the final calculated present value of the cash flows to obtain the firm's total value.

Reason (R): The Consolidated Valuation approach includes interest income from cash in the earnings and cash flows used for valuation.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2017

63. Consider the following statements regarding the adjustment of earnings for companies facing momentary challenges:

I. Present negative earnings should generally be replaced with normalised profits.
II. If a loss is traced to a specific occurrence like a strike, the cost linked to that occurrence should be extracted from forecasts.
III. Any tax benefits achieved as a result of the temporary expense must be deducted during the normalisation process, assuming the expense was tax deductible.
IV. Earnings scaling using the average of values from earlier years is an appropriate method if a specific spending metric appears abnormally high.

Which of the above statement(s) is/are correct?
(A) Only I, II, and III
(B) Only II, III, and IV
(C) Only I, III, and IV
(D) All I, II, III, and IV

May/June 2017

64. Zephyr Innovations is a 3-year-old technology start-up. Analysts have calculated the Present Value of its Discounted Cash Flows, assuming it operates indefinitely as a going concern, to be 500 units. However, due to severe market competition, the probability of Zephyr surviving as a going concern is estimated at 60%. In the event of failure, the distress sale value of the firm's assets is estimated at 100 units. What is the estimated adjusted Value of the Firm?
(A) 300 units
(B) 340 units
(C) 400 units
(D) 600 units

Oct/Nov 2010

65. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question selecting the appropriate option:

Assertion (A): Unlike a publicly traded stock, the terminal value of a real estate building may be significantly less than its current value.

Reason (R): The worth of the physical building structure typically decreases as it is used over its limited lifespan.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of

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Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2023

66. In the Omega Steel scenario, what specific external constraint is most explicitly hindering the speed at which the company can correct its inefficiencies?
(A) Contractual constraints and social pressure preventing workforce reduction
(B) The lack of available commercial banking loans
(C) The inability to estimate a synthetic interest coverage rating
(D) A fundamental lack of digital e-commerce channels

Oct/Nov 2012

67. Consider the following statements regarding the valuation of trademarks, copyrights, and licenses:
I. They generally have a finite lifespan over which expected cash flows must be estimated.
II. Due to the predetermined time period of exclusivity, there will generally not be a terminal value in the majority of cases.
III. The cost of enforcing exclusivity, including legal and monitoring costs, decreases the value of the exclusive right.
IV. It is guaranteed that there will be no violations of the right if it is monitored meticulously, thereby eliminating lost income.
Which of the above statement(s) is/are correct?
(A) Only I, II, and III
(B) Only I, III, and IV
(C) Only II, III, and IV
(D) All I, II, III, and IV

May/June 2006

68. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question selecting the appropriate option:
Assertion (A): When estimating the typical earnings of a company recovering from a momentary challenge like a legal verdict, one must deduct any tax benefits achieved as a result of that expense.
Reason (R): Deducting the tax benefit ensures that the normalisation accurately reflects the baseline earnings without the artificial, temporary tax shield provided by the deductible loss.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2009

69. Following the scenario in the previous question, what is an explicit limitation of the approach adopted by the analyst to value the FMCG company's brand name?
(A) The unamortized balance may not reflect the brand asset's actual current market value.
(B) It relies entirely on finding a perfectly matched peer group of similar competitor firms.
(C) It requires the company to have an endless lifespan to calculate a valid terminal value.
(D) It is considered the most subjective of the three main approaches for valuing assets.

May/June 2016

70. Consider the following statements regarding firms suffering from long-term operating issues:
I. The operational margin is the variable that most accurately evaluates the efficiency of the operating system.
II. Older manufacturing firms typically face greater production expenses due to antiquated equipment manufactured in earlier eras.
III. The amount of time required to eradicate inefficiencies is generally proportional to the absolute size of the company.
IV. Contractual constraints, such as union contracts, frequently limit a company's ability to swiftly lay off surplus personnel.
V. Replacing senior management is completely ineffective if the core issue is restricted strictly to operational machinery.
Which of the above statement(s) is/are correct?

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(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2006

81. Apex Commercial Bank holds a loan portfolio with a total face value of 10,000 units and a weighted average duration of five years. The portfolio generates an annual interest revenue of 800 units. An independent valuer determines the fair market interest rate for similar loans is 6.50%. Using the asset-based valuation approach formula, which of the following best represents why the fair market value of the portfolio exceeds its book value?
(A) The bank is shielded from regulatory capital adequacy norms.
(B) The bank applies a 0% composite payout ratio to retain all earnings.
(C) The annual interest generated (8%) is higher than the fair market interest rate (6.50%).
(D) The default risk on the portfolio is considered completely non-existent.

May/June 2012

82. Consider the following statements regarding the nature and valuation of intangible assets:
I. Conventional accounting standards often grossly underestimate or ignore the value of intangible assets.
II. A failure to value intangible assets distorts accounting measures of profitability like return on equity.
III. Market studies have noted that intangible assets accounted for as much as 90% of the market value of broad indices like the S&P 500 in recent years.
IV. Independent intangible assets like franchises grant the owner the right to sell a branded good under the franchise's name for an initial or annual cost.
V. Brand names are generally considered simple to single out and value independently due to their direct individual cash flows.
Which of the above statement(s) is/are correct?
(A) Only I, II, III, and IV
(B) Only I, II, IV, and V
(C) Only II, III, IV, and V
(D) All I, II, III, IV, and V

Oct/Nov 2024

83. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question selecting the appropriate option:
Assertion (A): Adding an arbitrary premium for a brand name after conducting a traditional discounted cash flow (DCF) valuation is considered double counting.
Reason (R): Traditional DCF valuation techniques inherently capture the value of the intangible assets that collectively generate the cash flows utilized in the model.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2020

84. AlphaTech is an emerging start-up in the e-commerce logistics sector with negative operating earnings but rapidly growing revenues. To forecast its future capital requirements, the valuer looks at industry averages and determines that the sector has a stable sales-to-capital ratio of 4. If AlphaTech expects its revenues to expand by 20 units next year, what is the expected reinvestment required to achieve this growth?
(A) 4 units
(B) 5 units
(C) 24 units
(D) 80 units

Oct/Nov 2007

85. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question selecting the appropriate option:
Assertion (A): When estimating betas for financial services companies, analysts routinely bypass the stage of un-levering and re-levering historical betas.
Reason (R): Financial services companies almost always possess highly similar, heavily levered capital structures, and accurately measuring

NODIA

May/June 2009

76. Consider the following statements regarding reinvestment estimation for start-ups:

I. The equation "Expected Growth = Reinvestment rate × Return on Capital" is easily operable when valuing start-ups with negative operating earnings.

II. The sales-to-capital ratio indicates the amount of additional revenue that will be earned for each additional unit of capital.

III. If a company has a sales-to-capital ratio of 5, an additional investment of 2 units is required to expand revenues by 10 units.

IV. In a stable growth state, reinvestment needs can be computed using the expected growth rate in conjunction with the expected return on capital.

Which of the above statement(s) is/are correct?

(A) Only I, II, and III
(B) Only II, III, and IV
(C) Only I, III, and IV
(D) All I, II, III, and IV

Oct/Nov 2018

77. In the AlphaTech scenario from the previous question, why did the valuer necessitate the use of the sales-to-capital ratio instead of applying the traditional expected growth formula linked to the Return on Capital?

(A) AlphaTech operates in a sector which prohibits the use of Return on Capital by regulation.
(B) Start-ups do not incur capital expenses, meaning their Return on Capital is always zero.
(C) The valuer needed to adjust for the survival probability rather than reinvestment logic.
(D) AlphaTech has negative earnings, making the standard Return on Capital equation inoperable.

May/June 2025

78. Consider the following statements regarding the general framework for evaluating start-up firms:

I. Most start-ups lack a long operational history, often operating for only a year or two.

II. Using revenues and earnings from the trailing 12 months will generally produce a better estimate of value than the most recent financial year.

III. Historical percentage increases in total revenue guarantee that the firm will sustain the exact same high growth rate indefinitely.

IV. Treating large operational expenses incurred for future growth as capital expenses helps in more accurately predicting true margins.

V. When converting equity value to per-share value, the number of outstanding equity options must be taken into account.

Which of the above statement(s) is/are correct?

(A) Only I, II, III, and IV
(B) Only I, II, IV, and V
(C) Only II, III, IV, and V
(D) All I, II, III, IV, and V

Oct/Nov 2025

79. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question selecting the appropriate option:

Assertion (A): Normalising earnings by averaging the absolute earnings over the past time periods results in highly accurate estimates for cyclical companies that have drastically expanded their operational scale.

Reason (R): Averaging absolute earnings is a calculation that simply provides a mean of historical dollar values and inherently fails to account for any growth in the firm's scale over time.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2019

80. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question selecting the appropriate option:

Assertion (A): When calculating the equity value per share for a capital-intensive start-up, including future shares to be issued to cover reinvestment alongside a dilution discount to current value constitutes double counting.

Reason (R): A dilution discount already adjusts the current value downwards to account for the financial impact of issuing those additional shares in the future.

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securitization, enabling investors to hold diversified portfolios.

Which of the above statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2023

40. Match the valuation approach in List I with its accurate procedural description in List II.

List I: Valuation Approach

P. Capital Investment Approach
Q. Discounted Cash Flow Valuation Approach
R. Relative Valuation Approach
S. Separate Valuation Approach (for cash)

List II: Description

1. Comparing the market value of a company with the asset to the market value of companies without it
2. Measuring accounting returns using non-cash earnings and netting cash from capital
3. Looking at advertising expenditures over time, capitalising them, and examining the unamortised balance
4. Isolating the percentage of aggregate cash flows attributable to the asset and discounting them back

(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-1, Q-2, R-3, S-4
(D) P-2, Q-1, R-4, S-3

Oct/Nov 2006

41. Consider the following statements viewing equity as an option in distressed firms:

I. Equity in a company is a residual claim, entitled to the cash remaining after all other financial claimholders are paid off.
II. With limited liability, equity investors can never lose more than their initial investment.
III. In a traditional DCF valuation, an increase in risk typically lowers equity value, but when equity operates as a call option, higher risk can actually increase equity value.

Which of the above statement(s) is/are correct?

(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) All I, II, and III

May/June 2020

42. What is the most appropriate method for normalising earnings in a cyclical company that has grown significantly in size (scale) over the recent economic cycle?

(A) Average the absolute earnings in local currency over the past five to ten years of history.
(B) Replace current earnings with the lowest earnings achieved at the bottom of the cycle.
(C) Estimate the average margin from prior periods and apply it to current revenue levels.
(D) Adjust the growth rate to zero to reflect the mature and saturated scale of the business.

Oct/Nov 2024

43. Which of the following pairs regarding the normalisation of earnings is correctly matched?

(A) Averaging absolute earnings in currency — Best suited for a company that has grown massively in size
(B) Averaging profit margins across time — Accounts for the present size and capital base of the company
(C) Immediate replacement of current earnings — A method that reduces the valuation value automatically
(D) Industry-wide issues — Transitory occurrences like a sudden strike

May/June 2015

44. Match the valuation parameter in List I with its procedural treatment under the Consolidated Valuation approach for cash in List II.

List I: Valuation Parameter

P. Earnings
Q. Reinvestment
R. Unlevered Beta
S. Growth rate

List II: Procedural Treatment

1. Should be the weighted average of the operating assets and cash
2. Should reflect growth in overall earnings including earnings from cash
3. Should include interest income from cash and marketable securities
4. Should consider funds allocated in both operating assets and cash

(A) P-3, Q-4, R-1, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-3, R-2, S-1

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their debt is challenging.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2005

86. Consider the following statements regarding the Dividend Discount Model as applied to financial service companies:
I. The model focuses on dividends because they are considered the only source of cash flows a stakeholder is entitled to receive.
II. Regression betas are always avoided entirely, even when the regulatory environment is completely stable.
III. Financial service corporations have traditionally distributed a greater amount of dividends compared to most other market companies.
IV. A composite payout ratio can be computed by combining money paid out in dividends with money paid out in stock buybacks.
Which of the above statement(s) is/are correct?
(A) Only I, II, and III
(B) Only I, III, and IV
(C) Only II, III, and IV
(D) All I, II, III, and IV

Oct/Nov 2023

87. When evaluating Zephyr Innovations, the analyst notes the firm's recent financial accounts report a large cash balance. According to the principles of valuing young companies, which of the following correctly describes the risk associated with this non-operating asset?
(A) It is a stable asset that will compound at the risk-free interest rate for a long period.
(B) Rapid cash burn in young firms means older statements may not reflect current balances.
(C) It functions strictly as a fictitious asset that must be written off by the lead analyst.
(D) The cash balance must be multiplied by the composite payout ratio to find market value.

May/June 2021

88. Consider the following statements regarding the valuation adjustments for cyclical companies:
I. Cyclical companies are characterised by instability and sensitivity to changes in the overall economy.
II. If present earnings are overstated as a result of an economic boom, the expected growth strategy should be adjusted to reflect a slowdown.
III. Turning-point years refer to the years when the economy enters or exits an economic downturn.
IV. Normalising earnings by averaging absolute earnings over past time periods is highly flawed for a company that has grown significantly in size.
V. Normalised net income can be accurately calculated by multiplying the firm's historical dividend yield by its current outstanding debt.
Which of the above statement(s) is/are correct?
(A) Only I, II, III, and IV
(B) Only I, II, IV, and V
(C) Only II, III, IV, and V
(D) All I, II, III, IV, and V

Oct/Nov 2013

89. A large fast-moving consumer goods (FMCG) company possesses a strong brand name. An analyst is tasked with valuing this brand name specifically. She examines the company's historical financial statements, identifies the exact amount of money the company has spent on advertising over the course of its existence, capitalises these expenses, and looks at the unamortised balance today. Which approach to intangible asset valuation is the analyst employing?
(A) Discounted Cash Flow Valuation
(B) Capital Investment Approach
(C) Relative Valuation
(D) Asset-Based Liquidation Valuation

May/June 2022

90. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question selecting the appropriate option:
Assertion (A): The standard formula "Expected Growth = Reinvestment rate * Return on Capital" is easily operable and broadly applied in the early years of start-up firm valuation.
Reason (R): Start-up firms typically experience negative operating earnings in their initial

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ANSWERS

1. (A) $0.54
Kodak experienced a severe financial decline as it struggled to transition from film to digital photography. By September 2011, shortly after being removed from the S&P 500 index, its stock price plummeted to just fifty-four cents per share. This collapse reflected the market's lack of confidence in the company's ability to survive in a rapidly evolving technological landscape.

2. (C) The goal is to replace negative earnings with normalized profits representing a typical year.
Cyclical firms experience earnings volatility driven by economic cycles and commodity prices. Normalisation involves replacing depressed or negative current earnings with a profit figure representing a typical or average year across the full cycle. This approach ensures that the valuation reflects the long-term earning potential of the business rather than being distorted by temporary macroeconomic conditions or market downturns.

3. (C) Expected Growth (Stable) / Expected Return on Capital (Stable)
In a stable growth state, a firm's reinvestment rate is mathematically tied to its growth rate and profitability. The required reinvestment to sustain growth is determined by dividing the expected stable growth rate by the expected return on capital. This relationship ensures that the firm invests enough capital to generate the predicted growth while considering the efficiency of its investments.

4. (C) Normalising net income by applying average margins to current revenues is highly susceptible to manipulation and should be avoided entirely.
Normalising net income by applying average margins to current revenues is a standard and accepted practice in valuation. It helps analysts smooth out the volatility caused by economic cycles and provides a more accurate picture of a firm's long-term earning capacity. Avoiding this method entirely would lead to valuations that are overly sensitive to short-term market fluctuations and cyclical swings.

5. (B) Securitization allows real estate to be subdivided, enabling investors to hold diversified portfolios.
While individual real estate properties require significant capital, securitization allows these assets to be subdivided into smaller, tradable units. This process enables investors to hold diversified portfolios of real estate, similar to financial assets. Consequently, standard risk and return models like the Capital Asset Pricing Model remain applicable, as the marginal investor can achieve a high level of diversification.

6. (B) Calculating the Unlevered Beta for Cash Holdings
The analysis of a start-up enterprise focuses on its current standing, revenue growth potential, and long-term operating margins. These steps are essential for projecting future cash flows in a high-growth environment. Calculating the unlevered beta specifically for cash holdings is not a core step in evaluating the primary operational value or the business model of a fledgling enterprise.

7. (B) Intangible fixed asset
Assets that lack physical substance but possess monetary value and provide long-term benefits are classified as intangible fixed assets. Software purchased for a computer system is a primary example of this classification. While it is not a physical object like machinery or buildings, it is an essential resource that contributes to the firm's operations over multiple accounting periods.

8. (B) It involves capitalizing historical advertising costs to determine the current unamortized balance.
The Capital Investment approach values an intangible asset, such as a brand name, by examining the historical costs incurred to build it. This method involves identifying and capitalizing all prior advertising and marketing expenditures. By looking at the current unamortized balance of these costs, analysts can estimate the investment required to create an equivalent asset in the marketplace.

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specific valuation approach, how should the earnings of RetailMart be processed?

(A) Earnings should be measured using non-cash earnings, with cash netted from the capital measure.

(B) Earnings should be measured inclusively, capturing both operating income and interest income from cash.

(C) Earnings should be scaled down by the prevailing risk-free rate to neutralise cash yields.

(D) Earnings must be converted to a composite payout ratio that distributes all cash to shareholders.

May/June 2011

98. Despite the firm's assets being worth less than the outstanding debt, Horizon Airways' shares still trade at a positive value on the stock exchange. Which of the following provides the primary theoretical justification for this?

(A) Equity investors have unlimited liability and must inject capital to cover any asset shortfall.

(B) Time until maturity allows asset values to rise above debt, providing a time premium value.

(C) The firm holds undocumented intangible assets that standard accounting practices ignore.

(D) Regulatory bodies support share prices for distressed firms to prevent systemic collapse.

Oct/Nov 2010

99. Horizon Airways is heavily burdened with debt. The face value of its outstanding debt is 8,000 units. Due to a prolonged industry downturn, the liquidation value of the firm's assets has plummeted to 6,500 units. If the company were to be liquidated immediately, what would be the exact payoff to Horizon Airways' equity investors?

(A) 0 units

(B) 1,500 units

(C) 6,500 units

(D) 8,000 units

May/June 2018

100. In the CycloMotors valuation scenario, why did the analyst correctly prefer using the average return on capital method over simply averaging the absolute earnings from the past decade?

(A) The ROC method automatically eliminates all existing corporate debt from the valuation.

(B) The absolute earnings method requires the assumption that the firm will never recover.

(C) Regulatory guidelines mandate that cyclical firms must be valued on liquidation value.

(D) Averaging absolute earnings fails to account for changes in the firm's operational scale.

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to a rapid recovery or market dominance. Instead, the company continued to struggle as it failed to effectively compete in the digital photography market. Kodak eventually declared bankruptcy in 2012, highlighting the long-term strategic failure to adapt to technological shifts.

18. (B) Three approaches
There are three established approaches for isolating and valuing intangible assets that enhance product pricing but do not provide independent cash flows. These include the Capital Investment approach, which focuses on historical costs; the Discounted Cash Flow approach, which isolates specific cash flow contributions; and the Relative Valuation approach, which compares firms with and without the asset.

19. (D) The present value of the cash flows already includes cash, so cash must not be added again at the end.
In a consolidated valuation approach, the earnings and cash flows used in the model already include the interest income generated by cash and marketable securities. Since this income is factored into the projections, the resulting present value inherently reflects the value of the cash. Therefore, adding the cash balance again at the end would result in double counting.

20. (A) Risk raises equity value by increasing the probability that asset values will exceed outstanding debt.
When equity is viewed as a call option in a distressed firm, increased variance or risk can actually enhance equity value. Higher volatility increases the probability that the firm's asset value will exceed its outstanding debt obligations before the debt matures. This counterintuitive effect occurs because equity holders benefit from the upside potential while their downside is protected by limited liability.

21. (C) To bypass capital adequacy regulations
Businesses and individuals typically hold cash for transactional purposes, as a precaution against unexpected expenses, or for speculative opportunities. Holding cash is not a method used to bypass capital adequacy regulations; in fact, for financial institutions, maintaining certain levels of liquid assets is often a requirement of such regulations to ensure institutional stability and solvency.

22. (D) 90%
Market updates as of July 2020 indicated that intangible assets had become the dominant component of corporate value for many major firms. In the S&P 500, intangible assets accounted for approximately ninety percent of the total market value. This reflects the increasing importance of technology, brand equity, and intellectual property in the modern global economy compared to physical assets.

23. (D) These assets offer exclusive rights for a finite period, precluding the inclusion of a terminal value.
Trademarks and copyrights provide exclusive rights for a legally defined, finite period. Because these assets eventually expire, valuing them using traditional discounted cash flow methods is complex. The limited lifespan means that analysts must project cash flows until the expiration date and generally exclude a terminal value, which is a standard component in perpetual firm valuations.

24. (D) Financial firms have varied capital structures, requiring analysts to re-lever historical betas.
Analysts often bypass the un-levering and re-levering of betas for financial service firms because these companies tend to have highly similar, heavily levered capital structures. Since debt is difficult to distinguish from operational capital in this sector, and firms are regulated similarly, using industry-average betas or regression betas directly is more common than attempting complex leverage adjustments.

25. (B) The terminal value of a building may decrease as it is used, while the land component has an endless life.
Unlike many financial assets that are valued as perpetual going concerns, real estate investments have a physical component that depreciates. The terminal value of a building may decrease over time as the structure ages and its utility declines. However, the land component is considered to have an infinite life, often becoming the primary driver of value in the long term.

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9. (B) The value of a real estate asset rises in proportion to the risk level when all other factors are held constant.
In standard valuation models, the value of an asset is inversely related to its risk level when all other factors remain constant. As the risk or discount rate increases, the present value of future cash flows decreases. Asserting that the value of a real estate asset rises in proportion to its risk level contradicts fundamental financial and valuation principles.

10. (C) (1 - Probability of surviving as a going concern) × Distress or Liquidation sale value
When factoring in the risk of failure, the total value of a firm is a weighted average of two scenarios. The first part accounts for the value as a going concern, while the second part considers the value in the event of failure. This is calculated by multiplying the probability of failure by the estimated distress or liquidation sale value.

11. (D) Insurers make money exclusively through venture capital funding derived from external equity markets.
Insurers typically generate income by collecting premiums from policyholders and earning returns on their investment portfolios. They do not rely exclusively on venture capital funding derived from external equity markets. Other financial institutions, such as commercial banks, investment banks, and wealth managers, have distinct income channels involving interest margins, advisory fees, and commissions for their specialized services.

12. (C) Equity holders are only entitled to cash remaining after all other financial claimholders have been paid off.
In a corporate structure, equity represents a residual claim on the firm's assets and earnings. This means that equity holders are entitled to receive payments or assets only after all other financial obligations, such as debt and interest payments to bondholders, have been fully satisfied. In cases of distress, equity holders receive the value that remains after settling senior claims.

13. (A) Most of these firms have limited histories, typically spanning only one or two years of data.
A significant challenge in valuing start-up firms is the lack of historical financial data. Most of these enterprises have been operational for only a very short period, often just one or two years. This scarcity of data makes it difficult for analysts to identify trends, estimate growth rates, or establish reliable risk parameters using traditional historical analysis techniques.

14. (C) Start-ups often have negative operating earnings, making the standard return on capital formula impossible to apply.
The traditional expected growth equation relies on the product of the reinvestment rate and the return on capital. However, start-up companies often report negative operating earnings in their early years. This results in a negative return on capital, making the formula mathematically inoperable and necessitating alternative approaches, such as using sales-to-capital ratios, to estimate the firm's future growth potential.

15. (D) Exemption from capital adequacy norms
Financial service companies are characterized by heavy regulation, difficulties in measuring reinvestment due to the nature of debt, and the use of provisioning for losses. They are not exempt from capital adequacy norms; in fact, these regulatory requirements are a defining feature of the sector and significantly influence the financial structure and dividend policies of these institutions.

16. (A) By the market beta in relation to the market portfolio
Within the Capital Asset Pricing Model, non-diversifiable risk represents the portion of an asset's variance that cannot be eliminated through portfolio diversification. This risk is quantified by the market beta, which measures the sensitivity of the asset's returns relative to the overall market portfolio. It represents the systematic risk that investors must be compensated for when holding the asset.

17. (A) Kodak ended the sales of classic film cameras in 2004, which led to a rapid recovery and dominance in the digital camera market by 2011. Although Kodak announced the end of classic film camera sales in 2004, this move did not lead

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firm valuation using the compiled data and projections.

53. (A) P-3, Q-4, R-1, S-2
Commercial banks profit from the interest margin between lenders and borrowers. Insurers collect premiums and earn revenue from investment portfolios. Investment banks earn fees from advisory services and helping enterprises raise funds. Wealth managers generate income through advising fees, portfolio management fees, and sales commissions from managing client assets and investments.

54. (B) Only II
Only the second statement is correct. Traditional regression analysis is unreliable for young companies with only a few months of listing data due to the lack of history. However, for an unrated company in debt, an analyst can indeed estimate a synthetic credit rating by using a predicted interest coverage ratio derived from the company's expected future operational income.

55. (A) Unlevered Beta — Unlevered beta of just the operating assets
In the Separate Valuation approach, the goal is to value operating assets and cash independently. Therefore, the unlevered beta used in the model should represent only the risk of the operating assets, excluding the impact of cash. The other options are incorrect because they describe characteristics more typical of a consolidated approach where cash and operations are valued together.

56. (A) Value the current policies and then deduct predicted claims and other outstanding debt.
When using the asset-based valuation method for an insurance company, the first step is to determine the value of the current policies held by the firm. From this amount, analysts must deduct the estimated value of future claims and any other outstanding debt obligations. This process isolates the residual value, which represents the estimated value of the company's equity.

57. (B) Only I and III
This approach involves identifying and capitalizing historical advertising expenditures to find the current unamortized balance. While the method is straightforward, the resulting value may not align with the actual market value of the brand. The second statement is incorrect because this method is generally considered the least subjective, as it relies on historical accounting data rather than projections.

58. (A) P-1, Q-4, R-2, S-3
Assessing current standing focuses on using trailing 12 months data. Revenue growth estimation involves looking at historical increases and general market expansion. Stable-growth operating margin estimation requires analyzing genuine competitors and reclassifying operating expenses as capital expenses. Estimating reinvestment often utilizes the sales-to-capital ratio because operating earnings are negative, making traditional return-based formulas unusable.

59. (C) Both I and II
Both statements are correct. Adding a brand premium after a DCF valuation is double counting since the brand's impact is already reflected in the cash flows. Additionally, market studies in 2020 confirmed that global economic conditions accelerated the shift toward intangible assets, such as digital technology and intellectual property, accounting for a greater share of total market value.

60. (A) P-4, Q-2, R-1, S-3
Start-up firms face informational constraints and rely on trailing 12 months data. Financial service companies are evaluated using payout ratios, DDM, and asset-based models. Distressed firms are viewed through the lens of call options due to high debt and limited liability. Cyclical firms have erratic earnings that require normalisation to reflect a typical operational year across economic cycles.

61. (A) Only I, II, III, and V
Most statements are correct, including the principles of value, the assumptions of CAPM, and the diversification challenges cited by critics. The fifth statement is also true as securitization aids diversification. However, the fourth statement is false because real estate can indeed be subdivided and securitized, which is exactly how institutional investors manage to hold diversified real estate portfolios.

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26. (D) Capital expenses offer multi-year benefits; operating expenses provide benefits only in the current year.
The primary distinction between capital and operating expenses lies in the duration of the benefits they provide. Operating expenses are incurred to generate benefits only within the current accounting period. In contrast, capital expenses involve investments in assets or projects expected to yield economic benefits over multiple years, necessitating their capitalization and subsequent depreciation or amortization over time.

27. (A) Liquidation Sale Value Approach
The valuation of intangible assets that do not produce independent cash flows typically involves the Capital Investment approach, the Discounted Cash Flow approach, or the Relative Valuation approach. A Liquidation Sale Value approach is not a standard method for valuing these specific types of assets, as it focuses on the scrap or immediate sale value of physical assets.

28. (A) Expected Change in Revenue / (Sales/ Capital)
When valuing firms where earnings-based metrics are unreliable, reinvestment can be estimated using revenue growth. The expected reinvestment is calculated by dividing the expected change in revenue by the sales-to-capital ratio. This ratio represents how efficiently a firm generates new sales from its invested capital, allowing analysts to determine the funding needed to support projected revenue increases.

29. (C) Adding a brand premium after a DCF valuation is the recommended way to avoid under-valuation.
Adding a brand premium after completing a discounted cash flow valuation is not recommended because it leads to double counting. A proper DCF valuation already accounts for the higher margins or growth rates generated by the brand. Therefore, the value of the brand is already embedded in the present value of the firm's projected cash flows.

30. (D) Financial institutions require lower net capital expenditures than manufacturing firms.
Financial institutions typically require significantly lower net capital expenditures in physical infrastructure compared to manufacturing firms. Since they do not need to invest heavily in plants or machinery, a larger portion of their net income remains available for distribution. This structural characteristic allows them to maintain consistently higher dividend payout ratios than firms in more capital-intensive industries.

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31. (A) II, IV, III, I
Kodak's decline began with the 2004 announcement to end classic film camera sales, which immediately resulted in fifteen thousand workers becoming redundant. Years later, as the company's financial health continued to deteriorate, it was removed from the S&P 500 index. Finally, in September 2011, the stock price hit a historic low of fifty-four cents per share before bankruptcy.

32. (B) Cost of Equity — Calculated strictly by un-levering and re-levering historical regression betas
Calculating the cost of equity for financial service firms usually avoids the un-levering and re-levering of betas. This is because debt in these firms is often indistinguishable from operational capital and capital structures are highly similar across the sector due to regulation. Analysts typically use regression betas or industry-wide averages without the complex leverage adjustments used for manufacturing firms.

33. (B) Estimate a synthetic rating based on a predicted interest coverage ratio using future income.
For an unrated start-up with negative operating income, the most appropriate way to estimate the cost of debt is through a synthetic rating. Analysts project the firm's future income to estimate an interest coverage ratio as the company moves toward profitability. This ratio is then used to assign a credit rating and a corresponding default spread over the risk-free rate.

34. (C) Both I and II
Both statements are correct regarding the valuation of financial service firms. Analysts typically bypass beta leverage adjustments because capital structures in this sector are consistently high and similar. Furthermore, the historical correlation between past and

future earnings growth for financial institutions was traditionally much lower than for other industries, complicating growth projections based solely on historical data.

35. (A) P-1, Q-2, R-4, S-3
Momentary challenges are linked to transitory events like strikes or legal verdicts. Industry-wide issues relate to broad economic cycles or commodity fluctuations. Strategic issues involve persistent failures to adapt to technology or markets. Operating issues are characterized by internal inefficiencies, such as maintaining obsolete machinery or bearing excessively high labor costs relative to competitors.

36. (A) Only I and II
The bottom-up approach is standard for start-ups with limited data, using averages from comparable listed companies. Additionally, negative operating income leads to a negative interest coverage ratio and a low credit rating. However, as a company grows and stabilizes, its cost of debt should be adjusted downward to reflect improved financial health rather than remaining unchanged indefinitely.

37. (A) Utilizing the bottom-up approach by looking at the averages of comparable companies listed for at least two years.
When a young start-up has minimal historical stock return data, a traditional regression analysis is unreliable. The most appropriate method is the bottom-up approach, which involves identifying a group of comparable, established companies in the same industry and using their average risk parameters. This provides a more stable and accurate estimate of the start-up's beta and overall risk profile.

38. (A) P-1, Q-2, R-3, S-4
In this financial analogy, the company represents the underlying asset of the option. The face amount of the outstanding debt serves as the exercise price. Liquidation is equivalent to the exercise of the option, and the payoff received by equity holders upon liquidation (if assets exceed debt) represents the intrinsic value captured by the option holder.

39. (B) Only II
While real estate investments can be large, securitization allows them to be subdivided, enabling investors to hold diversified portfolios. However, the first statement is incorrect because the terminal value of a building is not guaranteed to be higher than its current value; physical structures depreciate and lose utility over time, potentially reducing their future worth significantly.

40. (A) P-3, Q-4, R-1, S-2
The Capital Investment approach capitalizes historical advertising costs. The Discounted Cash Flow approach isolates and discounts the percentage of cash flows attributable to the asset. Relative Valuation compares the market value of firms with and without the asset. The Separate Valuation approach for cash involves using non-cash earnings and netting cash from the capital measure.

41. (D) All I, II, and III
All three statements accurately describe the option-like nature of equity in distressed firms. Equity is a residual claim with limited liability, meaning losses are capped at the initial investment. Furthermore, while risk usually decreases value in traditional DCF models, it can increase the value of a call option, including equity in a highly levered firm, by increasing potential upside.

42. (C) Estimate the average margin from prior periods and apply it to current revenue levels.
For a cyclical company that has significantly increased in scale, averaging absolute past earnings is inaccurate as it ignores growth. The best method is to calculate the average profit margin over a full economic cycle and then apply that normalized margin to the firm's current revenue levels. This accounts for the company's current size while smoothing out cyclical earnings volatility.

43. (B) Averaging profit margins across time — Accounts for the present size and capital base of the company
Averaging profit margins across an economic cycle is an effective way to normalize earnings because it accounts for the firm's current size and capital base. In contrast, averaging absolute

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earnings in currency fails for firms that have grown significantly. Industry-wide issues refer to broad economic trends, not specific transitory events like strikes, which are classified as momentary challenges.

44. (A) P-3, Q-4, R-1, S-2
Under the Consolidated approach, earnings include interest income from cash. Reinvestment considers funds allocated to both operating assets and cash. The unlevered beta is a weighted average of operating assets and cash. Finally, the growth rate reflects the overall growth in earnings, which includes the interest income generated by the company's cash and marketable securities.

45. (D) All I, II, and III
All statements are correct. Asset value is generally proportional to cash flow volume and growth. Real estate differs from stocks because buildings have limited lifespans and depreciate. Crucially, the land component of real estate has an endless life and often represents the most significant factor in determining the terminal value of the investment over very long horizons.

46. (B) Capitalize operational expenses instead of expensing them in the current profit and loss statement.
Start-ups often incur high operational expenses, such as marketing or research, that are intended to drive future growth. Treating these as current expenses can mask true product profitability. The most appropriate analytical action is to capitalize these expenses and amortize them over time, which provides a clearer view of the firm's underlying margins and long-term economic potential.

47. (C) Both I and II
Both statements are correct. Historically dominant firms, like Kodak, suffered because management failed to adapt to digital transitions and ignored market feedback. Similarly, firms like IBM experienced a decline in return on equity when they ceded dominance in key segments, such as personal computer operating systems, to more agile competitors like Microsoft and Intel during the technology shift.

48. (A) P-4, Q-1, R-2, S-3
Software is an asset with monetary value but is intangible in form. Spectrum is an intangible fixed asset with monetary value. Undeveloped patents have the potential to generate future cash flows but do not do so currently. Brand names collectively generate cash flows but are extremely difficult to isolate and value as independent entities from the firm's operations.

49. (A) Momentary Challenges — Persistent macroeconomic recessions spanning ten years
Momentary challenges refer to short-term, transitory events like a strike or a specific legal verdict. Persistent macroeconomic recessions that span a decade are not momentary; they are broad, long-term economic conditions or industry-wide issues. Categorizing a ten-year recession as a "momentary" challenge is factually incorrect within the context of financial analysis and valuation.

50. (A) P-2, Q-3, R-4, S-1
The retention ratio measures equity reinvested into the firm. Return on Equity (ROE) is an indicator of investment quality, especially since financial assets are often marked to market. The composite payout ratio combines dividends and stock buybacks. Net capital expenditures are typically lower for banks, leading to a higher distribution of net income to shareholders as dividends.

51. (A) Only I and II
The retention ratio does measure reinvested equity, and ROE is a strong indicator of investment quality in this sector because assets are often marked to market. However, the third statement is false; financial service firms actually tend to pay out a much larger portion of their profits as dividends compared to manufacturing firms due to their lower capital expenditure needs.

52. (A) III, IV, V, I, II
The evaluation process begins with assessing the enterprise's current standing, followed by estimating revenue growth. Next, analysts determine the operating margins associated with stable growth. Once these projections are made, risk and discount rates are estimated. The final step in the sequence is to perform the actual

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years, causing the standard growth equation to become mathematically inoperable.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2020

91. RetailMart Inc. generates its revenues through a high volume of small cash transactions in its physical grocery stores, necessitating a large cash balance in its registers and local safes. Which of the following motivations directly justifies RetailMart maintaining this specific liquid cash balance for daily operations?
(A) Speculative purposes to acquire competitors
(B) Proper functioning for daily operating transactions
(C) Protection against unplanned long-term capital expenses
(D) Circumvention of capital adequacy norms

May/June 2024

92. If the analyst determining the value of Global Life Insurance Co. assumes the firm has fully transitioned into a stable growth phase, which of the following conditions must the expected growth rate satisfy?
(A) It must be exactly double the current risk-free interest rate.
(B) It must be substantially higher than the historical growth rate of its fastest-growing peer.
(C) It must be lower than or equal to the growth rate of the overall economy.
(D) It must match the exact yield of its outstanding preferred equity claims.

Oct/Nov 2005

93. What is a major drawback of applying the asset-based valuation method to an established financial institution like Apex Commercial Bank?
(A) It overestimates legal expenses for enforcing exclusivity for bank loan portfolios.
(B) It requires the immediate liquidation of all non-operating physical firm assets.
(C) It is incompatible with institutions operating in heavily regulated bank sectors.
(D) It ignores future growth and additional profits resulting from business expansion.

May/June 2008

94. CycloMotors is an automobile manufacturer experiencing extreme cyclical earnings. During a severe recession year, it reported negative earnings of 200 units. An analyst normalises the firm's earnings by calculating its average return on capital over the full economic cycle, which is 14%. Applying this to the current capital base of 5,000 units, what is the normalised operating income estimated for CycloMotors?
(A) 200 units
(B) 500 units
(C) 700 units
(D) 1,400 units

Oct/Nov 2011

95. In the context of viewing equity as a call option in the Horizon Airways scenario, what financial variable acts as the 'exercise price' of the option?
(A) The face value of the outstanding debt (8,000 units)
(B) The liquidation value of the firm's assets (6,500 units)
(C) The remaining time premium on the outstanding bonds
(D) The absolute difference between asset value and debt (1,500 units)

May/June 2006

96. Global Life Insurance Co. is a mature financial services firm being valued using the Dividend Discount Model (DDM). The firm has a Return on Equity (ROE) of 15% and maintains a consistent dividend payout ratio of 60%. It does not engage in any stock buybacks. Based on fundamental growth principles, what is the expected growth rate in earnings per share for the company?
(A) 6.0%
(B) 9.0%
(C) 15.0%
(D) 25.0%

Oct/Nov 2022

97. An analyst values RetailMart Inc. using the Separate Valuation approach for its substantial cash and near-cash investments. Under this

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62. (D) Assertion (A) is false, but Reason (R) is true.
The assertion is false because in a consolidated approach, you do not add the cash balance at the end; doing so would result in double counting. The reason is true because the consolidated approach includes interest income from cash in the earnings projections. Therefore, the value of the cash is already integrated into the present value calculation.

63. (D) All I, II, III, and IV
All four statements are correct. Normalisation involves replacing negative earnings with typical profits and removing the impact of one-time events like strikes. It also requires deducting any tax benefits derived from those temporary expenses. Scaling metrics that appear abnormally high by using historical averages is also a valid method for restoring a baseline for the company's valuation.

64. (B) 340 units
The adjusted value is the sum of the weighted scenarios. The survival scenario is calculated as 0.60 multiplied by 500 units, which equals 300. The failure scenario is calculated as (1 - 0.60) multiplied by 100 units, which equals 40. Adding these two values (300 + 40) results in a total adjusted firm value of 340 units.

65. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Both statements are true. Real estate terminal values can be lower than current values because physical buildings are subject to wear and tear and have limited lifespans, causing their structural worth to decrease over time. This depreciation directly explains why a building's future value may not match the perpetual growth often assumed for intangible or financial assets.

66. (A) Contractual constraints and social pressure preventing workforce reduction
In the Omega Steel scenario, the primary external constraint preventing the company from quickly correcting its inefficiencies is the existence of union contracts and social pressure. These factors restrict the management's ability to reduce a surplus workforce and lower high labor expenses, which are essential steps for improving the firm's operational efficiency and returning to profitability.

67. (A) Only I, II, and III
These assets have finite lifespans, usually lack terminal values due to expiration, and involve significant enforcement costs that reduce their value. However, the fourth statement is incorrect; meticulous monitoring does not guarantee there will be no violations of the right, as illegal use or infringement can still occur and cause lost income despite enforcement efforts.

NODIA

68. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Both statements are true. When normalizing earnings after a temporary loss, any tax benefits resulting from that loss must be deducted. This ensures the calculation reflects the firm's true baseline earnings without the temporary distortion of a tax shield. The reason correctly explains that this deduction is necessary to prevent an overestimation of the company's normalized profit level.

69. (A) The unamortized balance may not reflect the brand asset's actual current market value.
A major limitation of using the Capital Investment approach to value a brand name is that the unamortized balance of historical advertising costs is often disconnected from the asset's current market value. The amount spent to build a brand in the past does not necessarily equal what the brand is worth today or what it would cost to replicate.

70. (A) Only I, II, III, and IV
Statements I through IV are correct regarding margins, equipment costs, company size, and contractual constraints. However, the fifth statement is false; replacing senior management can be highly effective even if issues seem mechanical. New leadership may be required to implement the strategic decisions necessary to replace obsolete machinery and navigate organizational changes needed for recovery.

71. (A) Deduct the value of any outstanding debt and deposits.
In an asset-based valuation of a bank, once the fair market value of the assets (such as the

loan portfolio) is determined, the next step is to subtract all liabilities. This includes outstanding debt and the value of customer deposits. The remaining amount represents the residual value of the firm, which is the estimated value of the bank's equity.

72. (A) Only I, II, and III
The first three statements correctly distinguish the Separate and Consolidated approaches regarding beta, interest income, and the final addition of cash. The fourth statement is incorrect because the Consolidated approach actually includes both operating assets and cash when considering reinvestment, as the goal is to value the entire firm as a single, combined entity.

73. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Both statements are true. Equity in a distressed firm can have positive value even if assets are worth less than debt. This occurs because the time remaining until debt maturity provides a "time premium." Equity holders effectively hold a call option, benefiting from any potential future increase in asset value above the debt level before the option's expiration date.

74. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Both statements are true. Developers who lack diversification will demand higher returns to compensate for their risk. In contrast, REITs and corporations attract diversified investors, allowing them to accept lower expected returns. Consequently, real estate assets naturally shift toward these institutional owners who can price them more competitively based on a lower, diversified cost of capital.

75. (D) Operating Issues
Omega Steel's situation is a classic example of operating issues. The company suffers from internal inefficiencies, specifically the use of obsolete machinery and disproportionately high labor costs due to union contracts. These are not temporary or industry-wide trends but rather internal operational failures that hinder the company's ability to compete effectively and maintain positive earnings in its market.

76. (B) Only II, III, and IV
The sales-to-capital ratio and its application for calculating investment needs are correctly described. Additionally, reinvestment in stable growth is linked to growth and return on capital. However, the first statement is false; the traditional growth formula is not easily operable for start-ups with negative operating earnings because the resulting negative return on capital makes the math meaningless.

77. (D) AlphaTech has negative earnings, making the standard Return on Capital equation inoperable.
AlphaTech has negative operating earnings, which results in a negative return on capital. In such cases, the standard growth equation (Growth = Reinvestment Rate * Return on Capital) becomes mathematically inoperable. Therefore, the valuer must use an alternative metric, like the sales-to-capital ratio, to estimate the reinvestment required to support the firm's projected revenue growth.

78. (B) Only I, II, IV, and V
Statements regarding limited history, trailing 12 months data, capitalizing expenses, and accounting for options are all correct. The third statement is false; historical revenue increases never guarantee future performance. In fact, growth rates for start-ups are expected to decline over time as the firm scales and the market reaches a higher level of maturity.

79. (D) Assertion (A) is false, but Reason (R) is true.
The assertion is false because averaging absolute historical earnings is highly inaccurate for firms that have grown in scale, as it ignores the firm's current size. The reason is true; this calculation only provides a mean of past dollar values and fails to account for growth. Therefore, using margins is a superior method for normalizing a growing firm's earnings.

80. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Both statements are true. Including future shares for reinvestment and applying a dilution discount for those same shares would be double counting. A dilution discount is a specific valuation adjustment intended to lower the current value to account for the impact of future share issuances.

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Therefore, using both methods simultaneously would unfairly penalize the firm's per-share value.

81. (C) The annual interest generated (8%) is higher than the fair market interest rate (6.50%).
The fair market value of a loan portfolio exceeds its book value when the interest rate it generates is higher than the current fair market interest rate for similar loans. In this scenario, the bank's portfolio earns 8%, while the market rate is only 6.50%. This premium makes the existing loans more valuable to investors than new loans issued at market rates.

82. (A) Only I, II, III, and IV
The first four statements accurately reflect the accounting limitations, profitability distortions, and the massive market share of intangible assets like franchises. However, the fifth statement is incorrect; brand names are not simple to value independently because their cash flows are inextricably linked to the firm's operations, making them difficult to isolate from other business factors.

83. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Both statements are true. A traditional DCF valuation uses cash flows and growth rates that already reflect the competitive advantages provided by intangible assets like brand names. Therefore, adding a separate brand premium after the calculation results in double counting the same value. The reason correctly identifies that these intangible values are already embedded in the model.

84. (B) 5 units
To find the expected reinvestment, the change in revenue is divided by the sales-to-capital ratio. In this case, the expected revenue expansion is 20 units, and the industry-average sales-to-capital ratio is 4. Dividing 20 by 4 results in an expected reinvestment requirement of 5 units to achieve the projected growth in the next fiscal year.

85. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Both statements are true. Analysts bypass the un-levering and re-levering of betas for financial firms because their capital structures are highly similar and heavily levered due to regulation. Furthermore, the reason correctly notes that measuring debt in this sector is challenging because it is often an integral part of operations, making traditional leverage adjustments difficult to perform accurately.

86. (B) Only I, III, and IV
Statements I, III, and IV correctly describe the focus on dividends, the historical payout trends, and the use of composite payout ratios. However, the second statement is false; regression betas are not always avoided. In stable regulatory environments, historical regression betas can still provide useful information, although analysts may use them more directly without the typical manufacturing sector leverage adjustments.

87. (B) Rapid cash burn in young firms means older statements may not reflect current balances.
For young start-up companies, a primary risk regarding cash balances is "cash burn." Because these firms often have negative cash flows from operations, they deplete their cash reserves quickly to fund growth. Consequently, a cash balance reported in a financial statement from several months ago may not accurately reflect the much lower amount of cash the firm currently holds.

88. (A) Only I, II, III, and IV
Most statements regarding the nature of cyclical firms, growth adjustments during booms, and the flaws of averaging absolute earnings are correct. However, the fifth statement is incorrect; normalized net income is not calculated by multiplying dividend yield by debt. Instead, it is typically estimated using average profit margins applied to current revenues or average returns on invested capital.

89. (B) Capital Investment Approach
The analyst is using the Capital Investment approach. This method involves identifying historical spending on building the asset, such as advertising and marketing costs, and then

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CHAPTER 17

Merger, Acquisition and Restructuring

Oct/Nov 2021

1. In a scheme of amalgamation, the creditors' meeting for approving the plan is not required if what minimum percentage of those owed money agree to the plan by signing an affidavit?
(A) 75 percent
(B) 80 percent
(C) 90 percent
(D) 100 percent

May/June 2018

2. Which statement correctly describes the "Value of Control" in an acquisition?
(A) It is the difference between the enterprise value and the equity value of the firm.
(B) It is synonymous with the terminal value calculated in the DCF method.
(C) It is the difference between value under optimal management and value under current management.
(D) It is the premium paid to acquire unlisted subsidiaries of a conglomerate.

Oct/Nov 2014

3. A reverse merger specifically occurs when:
(A) A publicly listed company acquires a smaller, unlisted company to delist its shares.
(B) A parent company sells a portion of its ownership stake in a wholly owned subsidiary.
(C) A smaller, unlisted company acquires a larger, publicly listed company.
(D) A company sells its most profitable division to its creditors.

May/June 2007

4. Which of the following statements regarding anti-takeover defences is INCORRECT?
(A) A staggered board is a pre-offer defence where the board of directors is divided into sections, with one group selected each year.
(B) Poison pills grant existing shareholders the right to buy bonds or preference stock that convert into the acquiring firm's stock on favourable terms.
(C) Greenmail is when a target firm sues the bidder for violating national anti-trust laws.
(D) A golden parachute provides retained current management with a generous remuneration package following a takeover.

Oct/Nov 2025

5. The phenomenon known as the "winner's curse" in the context of acquisitions refers to:
(A) A target company winning a legal battle to block the takeover but losing its market share.
(B) A bidder grossly overpaying for a target due to misjudged value in a competitive environment.
(C) An acquirer successfully integrating the target but facing subsequent anti-trust litigation.
(D) A seller achieving a high valuation but facing significant and exorbitant capital gains taxes.

May/June 2021

6. Target organisations utilise various pre-offer and post-offer anti-takeover defences. All of the following are classified as pre-offer defences, EXCEPT:
(A) Staggered board
(B) Pacman defence
(C) Poison Puts
(D) Dual class shares

Oct/Nov 2018

7. Amalgamation is defined as the combination of two or more pre-existing businesses where:
(A) The transferor company liquidates its assets and distributes them to the transferee company.
(B) The shareholders of each amalgamating company become largely the shareholders in the amalgamating company.
(C) The target firm operates as a wholly-owned subsidiary of the acquiring firm.
(D) Both companies dissolve to form a joint

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99. (A) 0 units

In an immediate liquidation, creditors and bondholders are paid first. Horizon Airways' assets are worth only 6,500 units, which is less than the 8,000 units owed to debt holders. Since the asset value cannot cover the face value of the debt, there is no residual value for equity holders. Consequently, the payoff to equity investors is zero.

100. (D) Averaging absolute earnings fails to account for changes in the firm's operational scale.

The analyst correctly chose the average return on capital method because averaging absolute historical earnings fails to account for growth in the firm's operational scale. If a firm has doubled in size over a decade, its typical earnings today should be higher than they were ten years ago. The ROC method adjusts for this by applying historical efficiency to the current capital base.

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of the value of the demerged company's shares must be transferred to the newly formed business.
(D) Assets and obligations must be taken over at fair market values recorded on the date of the demerger.

Oct/Nov 2005

16. Which of the following correctly describes the process of "acquisition"?
(A) The purchase of controlling interest in another firm's share capital.
(B) The strategic coming together of two separate businesses on an equal footing.
(C) The formal legal dissolution of both companies to create a new corporate entity.
(D) The internal transfer of business divisions to a newly formed subsidiary company.

May/June 2011

17. Which of the following statements regarding accounting for business combinations under the pooling of interests method is INCORRECT?
(A) Adjustments are systematically made to reflect the fair values of the acquired assets and liabilities.
(B) The assets and liabilities of the combining companies are recorded at their carrying amounts.
(C) No new assets or liabilities are recognised, except those necessary to synchronise accounting policies.
(D) An adjustment is made in the reserves to account for the difference in capital caused by the exchange ratio.

Oct/Nov 2013

18. Under the SEBI Takeover Code, what is the trigger point at which an acquirer must make a public announcement for an open offer to acquire shares?
(A) When combined holdings equal or exceed 15 percent of the total stock.
(B) When combined holdings equal or exceed 25 percent of the total stock.
(C) When combined holdings equal or exceed 26 percent of the total stock.
(D) When combined holdings equal or exceed 50 percent of the total stock.

NODIA

May/June 2013

19. For a demerger to be eligible for tax incentives, which condition must be satisfied?
(A) The transfer of assets must occur at current fair market value.
(B) Shareholders owning at least 50 percent of the value of the demerged company's shares must become shareholders of the newly formed business.
(C) The demerged company must completely dissolve immediately following the transaction.
(D) The newly formed business must distribute shares on a proportional basis to the shareholders of the firm that will be demerged.

May/June 2012

20. When investment bankers and other investors speculate on the stocks of firms that are possible takeover targets, this specific kind of arbitrage is known as:
(A) Tail risk arbitrage
(B) Convertible arbitrage
(C) Merger arbitrage
(D) Regulatory arbitrage

Oct/Nov 2011

21. Several attributes are essential to the growth and prosperity of a business partnership. Which of the following is NOT listed as an essential attribute?
(A) The partners' respective strengths are complementary to one another.
(B) There is an unmistakable understanding of the purpose, roles, and obligations.
(C) Both partners maintain strictly independent financial systems with no shared resources.
(D) Both partners' time horizons and financial expectations are comparable.

May/June 2017

22. Under the legal procedure for amalgamation, what is the minimum outstanding debt percentage a creditor must hold to be allowed to voice their opposition to the amalgamation scheme before the National Company Law Tribunal (NCLT)?
(A) More than 2 percent
(B) More than 5 percent
(C) More than 10 percent
(D) More than 15 percent

venture under a holding company structure.

Oct/Nov 2006

8. Which of the following statements regarding types of mergers is correct?
(A) A vertical merger occurs when two businesses operating in the same market sector merge.
(B) A horizontal merger often leads to the newly consolidated company having a larger market share than its predecessors.
(C) A congeneric merger involves companies whose lines of business are completely unconnected.
(D) A conglomerate merger is primarily aimed at establishing a buyer-seller relationship.

May/June 2025

9. Which of the following statements regarding the legal procedure of amalgamation is INCORRECT?
(A) The business of the amalgamating company shall continue under the object clause of the transferee company.
(B) The consent of the RBI must be sought for every merger between two domestic companies.
(C) The NCLT has the authority to make changes to the scheme of amalgamation and issue orders reflecting those changes.
(D) Notice must be given to shareholders and creditors at least 30 days in advance of the meetings.

Oct/Nov 2012

10. Under the SEBI Takeover Code, within how many business days following the public announcement must the merchant banker publish the "detailed public statement" in newspapers?
(A) Two business days
(B) Five business days
(C) Seven business days
(D) Ten business days

Oct/Nov 2020

11. Typical bases utilised when determining an exchange ratio in a merger include all of the following, EXCEPT:
(A) Book Value Per Share
(B) Earnings Per Share
(C) Dividend Discounted Value Per Share
(D) Replacement Cost of Intangible Assets

May/June 2009

12. If the acquisition of one of the businesses of a company as a going concern is completed for a single sum of money without assigning specific valuations to any of the asset categories, it is referred to as:
(A) A spin-off
(B) An equity carveout
(C) A slump sale
(D) A preferential allotment

Oct/Nov 2019

13. Under the SEBI Takeover Code, which statement correctly describes a "creeping acquisition"?
(A) Acquirers holding 25-75% can buy up to 5% per year without an open offer.
(B) Acquirers holding 25-75% can buy up to 10% per year without an open offer.
(C) Any acquirer can purchase up to 25% of a company sequentially regardless of current holdings.
(D) Creeping acquisitions are strictly prohibited once an acquirer crosses the 5 percent holding mark.

Oct/Nov 2009

14. Why does empirical evidence suggest that cash-financed acquisitions have a higher rate of success compared to stock-financed purchases?
(A) Cash buyers avoid regulatory scrutiny from the national Competition Commission.
(B) Cash transactions do not trigger capital gains tax for the acquired firm's shareholders.
(C) Cash buyers evaluate targets with greater discipline, circumspection, and rigour.
(D) Cash compensation automatically eliminates the need to calculate long-term horizon value.

May/June 2024

15. All of the following are necessary conditions for a demerger to be eligible for tax incentives, EXCEPT:
(A) The newly formed firm must be given ownership of all assets transferred from the demerged company.
(B) Shares must be distributed on a proportional basis to the shareholders of the demerged firm.
(C) Shareholders owning at least three-quarters

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capitalizing those expenses. By determining the unamortized balance of these accumulated costs, the analyst estimates the value of the brand based on the total investment required to create and maintain it over time.

90. (D) Assertion (A) is false, but Reason (R) is true.
The assertion is false because the standard growth formula is not easily operable for start-ups; it fails when earnings are negative. The reason is true; negative operating earnings lead to a negative return on capital, which makes the product of the reinvestment rate and return on capital mathematically meaningless for the purpose of predicting future company growth.

91. (B) Proper functioning for daily operating transactions
Businesses like RetailMart that handle a high volume of small cash transactions must maintain liquid cash in registers and safes to facilitate daily operations. This is a primary transactional motivation for holding money. It ensures the business can make change for customers and settle immediate operational needs without relying on the delayed processing of electronic or credit-based payments.

92. (C) It must be lower than or equal to the growth rate of the overall economy.
According to the principles of terminal value and stable growth, a firm cannot grow faster than the overall economy indefinitely. Therefore, for a valuation model to be sustainable, the expected growth rate assumed for the stable growth phase must be less than or equal to the long-term growth rate of the economy in which the company primarily operates.

93. (D) It ignores future growth and additional profits resulting from business expansion.
A major drawback of the asset-based valuation method is its static nature. It values a firm based on its current assets and liabilities but fails to account for the firm's future earning potential. For an established institution like Apex Commercial Bank, this method ignores the value of future business expansion, new loan growth, and the additional profits expected from future operations.

94. (C) 700 units
To calculate the normalized operating income, the analyst applies the average return on capital to the current capital base. In this scenario, the average return on capital over the economic cycle is 14%. Multiplying the current capital base of 5,000 units by 14% (0.14) results in an estimated normalized operating income of 700 units for the company.

95. (A) The face value of the outstanding debt (8,000 units)
When viewing equity as a call option in a distressed firm, the face value of the outstanding debt serves as the exercise price. For equity holders to receive any value upon the firm's liquidation or the "exercise" of the option, the total value of the firm's assets must exceed this specific debt amount of 8,000 units.

96. (A) 6.0%
The expected growth rate in earnings for a firm is calculated as the product of its retention ratio and its return on equity. With a dividend payout ratio of 60%, the retention ratio is 40%. Multiplying the retention ratio (0.40) by the return on equity (0.15) results in an expected growth rate of 0.06, or 6.0%.

97. (A) Earnings should be measured using non-cash earnings, with cash netted from the capital measure.
In the Separate Valuation approach, the goal is to value operating assets independently from cash. Therefore, earnings must be adjusted to exclude any interest income generated by cash and marketable securities. This results in "non-cash earnings." Additionally, the cash balance is netted out from the capital measure to ensure the valuation reflects only the performance of the core operations.

98. (B) Time until maturity allows asset values to rise above debt, providing a time premium value.
Horizon Airways' shares trade at a positive value because equity acts like a call option. Even if current assets are worth less than debt, there is time remaining until the debt matures. This time allows for the possibility that asset values will rise above the debt level in the future. This potential for future upside provides the shares with a positive "time premium" value.

NODIA

May/June 2006

23. In the context of economies of scale resulting from a merger, how are "real" economies distinguished from "pecuniary" economies?
(A) Real economies result from tax shields; pecuniary economies result from asset liquidation.
(B) Real economies result from cheaper bulk inputs; pecuniary economies result from factor reductions.
(C) Real economies involve overhead reductions; pecuniary economies involve synergy premiums.
(D) Real economies reduce factor inputs; pecuniary economies reduce bulk transaction prices.

May/June 2010

24. Which of the following statements regarding the tax aspects of an amalgamation is INCORRECT?
(A) The resulting company is eligible for tax advantages only if the amalgamating company was an Indian corporation.
(B) Shareholders holding at least 75 percent in value of the amalgamating company's shares must become shareholders of the amalgamated company.
(C) The combined firm can deduct the cost of purchasing patent rights and technical know-how.
(D) Capital gains realised from a slump sale are unconditionally exempt from income tax.

Oct/Nov 2008

25. Regarding the Competition Act of 2002 and business combinations, which statement is correct?
(A) Any person proposing a combination must approach the Commission within 30 days of the board approval.
(B) The Commission has one year to investigate a combination if pre-approval was not obtained.
(C) The Competition Commission is primarily concerned with protecting the interests of minority shareholders.
(D) The Commission can only investigate monopolies formed exclusively by large foreign corporate entities.

May/June 2016

26. When a parent firm engages in an equity carveout, what is the primary action taken?
(A) It acquires the outstanding minority interest in a subsidiary.
(B) It distributes the shares of a subsidiary to its existing shareholders proportionally.
(C) It transfers ownership of a factory to another organisation for purchase consideration.
(D) It sells part of its ownership in a subsidiary to the public or strategic investors.

Oct/Nov 2022

27. Corporate diversification via mergers is generally considered inflexible compared to "home-made" investor diversification, EXCEPT in which of the following circumstances?
(A) When one of the merging companies is not traded in the marketplace, making home-made diversification impossible.
(B) When the acquiring firm has surplus cash reserves and pays high dividends.
(C) When the target company is traded actively on a highly efficient stock exchange.
(D) When the revenues of the merging firms exhibit a positive correlation.

Oct/Nov 2007

28. According to the SEBI Takeover Code, what minimum percentage of the consideration payable for the public offer up to Rs. 100 crore is the acquirer obligated to place in an escrow account?
(A) 10 percent
(B) 15 percent
(C) 25 percent
(D) 50 percent

Oct/Nov 2017

29. Which of the following statements regarding the reasons for mergers is INCORRECT?
(A) Production on a larger scale typically results in a lower average cost of production, driving synergy.
(B) Acquiring a company with accumulated tax losses allows the amalgamated company to see tax savings.
(C) Corporate diversification via merger is the most universal way for investors to reduce risk.
(D) An increase in management efficiency can result from replacing an underperforming

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management team.

May/June 2015

30. Divestitures are founded on the "anergy" principle, which metaphorically states that:
(A) The sum of two and two is equal to five.
(B) The sum of two and two remains four, but with reduced overhead.
(C) The sum of three minus two equals zero.
(D) The sum of two and two is equal to three.

May/June 2005

31. Arrange the following steps involved in the acquisition procedure for business combinations under Ind AS 103 in their correct sequential order:
I. Recognizing and measuring the identifiable assets acquired and liabilities assumed
II. Establishing who the acquirer is
III. Recognizing and measuring goodwill or a gain from a bargain purchase
IV. Figuring out when the property was acquired
(A) II, IV, I, III
(B) II, I, IV, III
(C) IV, II, III, I
(D) II, IV, III, I

Oct/Nov 2015

32. Which of the following incorrectly pairs the synergy source with its outcome?
(A) Sharing central services — Reduction in overhead costs (Economies of Scale)
(B) Complementary Resources — Increasing the average cost of production
(C) Transacting factor inputs in bulk — Pecuniary economics
(D) Vertical Integration — Risk of missing out on benefits of outsourcing

May/June 2023

33. How does an equity carve-out distinctly benefit a parent company compared to a standard spin-off?
(A) It results in the complete legal dissolution of the parent entity.
(B) It brings an influx of cash into the parent business by selling shares of the newly created company to new investors.
(C) It ensures that the parent company entirely relinquishes its controlling stake in the subsidiary.
(D) It transfers ownership of a factory solely in exchange for debt securities.

NODIA

May/June 2022

34. Evaluate the following statements regarding Leveraged Buyouts (LBOs):
I. A management buyout (MBO) is a type of transaction where the management of a business unit purchases the business unit outright.
II. In an LBO, the presence of significant debt equity provides management with an incentive to relax and avoid taking risks.
Which combination of statements is correct?
(A) Only Statement I is correct.
(B) Only Statement II is correct.
(C) Both Statement I and II are correct.
(D) Neither Statement I nor II is correct.

Oct/Nov 2024

35. Match the pricing parameter in List I to the time period in List II under SEBI Pricing Guidelines.
List I: Pricing Parameter
P. Volume-weighted average price paid for acquisitions
Q. Highest price paid for any purchase
R. Volume-weighted average market price
S. Turnover considered for "frequently traded" shares
List II: Time Period
1. Twenty-six weeks preceding the public announcement
2. Fifty-two weeks preceding the public announcement
3. Sixty trading days preceding the public announcement
4. Twelve calendar months preceding the calendar month
(A) P-2, Q-1, R-3, S-4
(B) P-1, Q-2, R-4, S-3
(C) P-3, Q-4, R-1, S-2
(D) P-4, Q-3, R-2, S-1

May/June 2019

36. Which of the following are characteristics indicating a company is a strong candidate for a Leveraged Buyout (LBO)?
I. Highly volatile and inconsistent cash flows.
II. Adaptability with regard to the sale of assets that are no longer needed.
III. Requirements for capital expenditures are quite low.

Which combination of statements is correct?
(A) Statements I and II are correct.
(B) Statements II and III are correct.
(C) Statements I and III are correct.
(D) All statements I, II, and III are correct.

May/June 2008

37. What is the primary argument supporting the use of market prices over book values when determining the exchange ratio in a merger?
(A) Book values are subjective accounting judgments that ignore changes in currency purchasing power.
(B) Market prices remain constant regardless of market liquidity.
(C) Market prices are completely immune to the influence of individuals with a financial stake.
(D) Book values always reflect the exact replacement cost of the company's assets.

Oct/Nov 2016

38. Match the Indian transaction example in List I with its corresponding fact in List II.
List I: Indian Transaction Example
P. HDFC Ltd. and HDFC Bank
Q. Mindtree Ltd and L&T Infotech Ltd
R. Tata Motors and Jaguar Land Rover
S. Tata Tea and Tetley
List II: Transaction Fact
1. An all-stock transaction valued at $3.3 billion.
2. First acquisition made by an Indian company using a leveraged buyout strategy.
3. Driving force behind the 2022 M&A spike with a total transaction value of $58.5 billion.
4. An all-cash acquisition resulting in a net consideration of $2.3 billion.
(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-3, R-2, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-4, Q-1, R-3, S-2

Oct/Nov 2010

39. Evaluate the following statements regarding compensation methods in acquisitions:
I. If the stock of the acquiring company is overvalued, making payments in stock rather than cash is considered the more cost-effective option.
II. In a stock compensation scenario, the shareholders of the acquired firm do not take part in the future risks and profits of the merger.
Which combination of statements is correct?
(A) Only Statement I is correct.
(B) Only Statement II is correct.
(C) Both Statement I and II are correct.
(D) Neither Statement I nor II is correct.

Oct/Nov 2023

40. Match the form of divestiture in List I with its characteristic in List II.
List I: Form of Divestiture
P. Sell-off
Q. Spin-off
R. Split-up
S. Equity Carve Out
List II: Characteristic
1. Division of the entire company into independent entities; the parent ceases to exist legally.
2. Parent sells a subsidiary's shares in the market via a public offer, bringing in cash.
3. Transfer of an asset or division to another organisation in exchange for cash or securities.
4. A portion of the business is segmented into an independent company with proportional shares distributed to existing stockholders; no cash gained.
(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

May/June 2020

41. Consider the following statements regarding anti-takeover defences used by businesses:
I. A corporation can make a preferential allotment to increase the promoter group's equity holding.
II. The promoter group can use creeping enhancement to increase ownership without any prescribed limits.
III. A target company can sell its "Crown Jewels" to make itself less desirable to a raider.
Which combination of statements is correct?
(A) Statements I and II are correct.
(B) Statements I and III are correct.
(C) Statements II and III are correct.
(D) All statements I, II, and III are correct.

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anticipating conflicts and cultural differences.

Which combination of statements is correct?

(A) Statements I, II, and III are correct.
(B) Statements I, II, and IV are correct.
(C) Statements II, III, and IV are correct.
(D) All statements I, II, III, and IV are correct.

Oct/Nov 2015

87. Company X (PV Rs. 40 crore) acquires Company Y (PV Rs. 5 crore) using a stock swap. The merger is expected to yield synergies with a present value of Rs. 5 crore. What is the total present value of the combined entity (PVAB)?

(A) Rs. 40 crore
(B) Rs. 50 crore
(C) Rs. 45 crore
(D) Rs. 55 crore

May/June 2019

88. Regarding the pricing guidelines under the SEBI Takeover Code, the minimum open offer price must be the highest of several specified parameters. Which of the following are valid parameters?

I. The highest price agreed for each share as part of the acquisition that triggered the open offer.
II. The volume-weighted average price paid for acquisitions made during the 52 weeks before the public announcement.
III. The highest price paid for any purchase during the 26 weeks immediately before the public announcement.
IV. The volume-weighted average market price of shares for a period of 60 trading days immediately preceding the public announcement, provided shares are frequently traded.
V. A fixed premium of 25 percent over the book value of the shares regardless of trading frequency.

Which of the above statements is/are correct?

(A) Statements I, II, III, and V are correct.
(B) Statements I, II, III, and IV are correct.
(C) Statements II, III, IV, and V are correct.
(D) All statements I, II, III, IV, and V are correct.

May/June 2017

89. Firm Alpha has a standalone present value of Rs. 200 crore, while Firm Beta has a standalone present value of Rs. 50 crore. The management of Firm Alpha identifies that merging the two firms would result in cost savings and synergistic benefits with a present value of Rs. 40 crore. Firm Alpha proposes to acquire Firm Beta by offering a direct cash compensation of Rs. 60 crore to Beta's shareholders. What will be the Present Value of the combined entity (PVAB) after the merger?

(A) Rs. 250 crore
(B) Rs. 290 crore
(C) Rs. 310 crore
(D) Rs. 350 crore

Oct/Nov 2012

90. In the following questions, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option:

Assertion (A): In a Leveraged Buyout (LBO), high dependence on debt tends to provide a jolt of energy and acts as a mechanism to squeeze operational inefficiencies.

Reason (R): The strict obligation to repay debt interest and principal severely limits the room for error and imposes intense discipline on the management team.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2008

91. Jupiter Investments holds 18 percent in Saturn Ltd. and employs a process to slowly increase their holding within allowed annual limits. This strategic process is technically termed as:

(A) Reverse Merger
(B) Creeping Acquisition
(C) Squeeze Out
(D) Equity Carve-out

May/June 2022

92. A market is comprised of exactly 6 companies. The two largest companies hold 30 percent market share each. The remaining four companies hold 10 percent market share each. Under the Herfindahl-Hirschman Index (HHI), how is market concentration calculated?

(A) By adding the market shares of all

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P. Conglomerate Merger
Q. Vertical Merger
R. Congeneric Merger
S. Reverse Merger

List II: Description

1. Two organisations with a buyer-seller relationship come together.
2. An unlisted company acquires a larger, publicly listed company.
3. Companies completely unconnected to one another in terms of products or markets.
4. Companies connected through fundamental technologies, methods, or market segments.

(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-4, R-1, S-2
(D) P-4, Q-1, R-3, S-2

Oct/Nov 2015

49. Which of the following incorrectly pairs the valuation concept with its description?

(A) Discounted Cash Flow — Employs market value to NOPAT multiple to determine status quo value.
(B) Exchange Ratio — The number of shares the acquirer gives up in return for one share of the target.
(C) Dividend Discounted Value — Represents the current value of the anticipated stream of dividends.
(D) Price-Earnings Ratio — A multiple affected by market perception of a company's growth prospects.

May/June 2008

50. Match the investment banking function in List I with its action in List II.

List I: Investment Banking Function

P. Arranging Mergers
Q. Developing Defensive Strategies
R. Determining Fair Value
S. Arbitrage Operations

List II: Action

1. Speculating on the stocks of firms that are possible takeover targets.
2. Proving that an agreed-upon price is reasonable to prevent shareholder legal challenges.
3. Assisting a target company to fend off a hostile acquirer.
4. Finding desirable companies and matching them with firms possessing surplus capital.

(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-4, R-1, S-2
(C) P-1, Q-2, R-3, S-4
(D) P-4, Q-2, R-3, S-1

May/June 2024

51. Consider the following statements regarding demergers and their divisions:

I. In a spin-off, the parent firm and the newly formed company are each considered independent corporate entities.
II. In a split-up, the parent company continues to exist as a distinct corporate entity while managing the new divisions.
III. The economic substance of spin-offs and split-ups is identical despite distinct forms of organisation.

Which combination of statements is correct?

(A) Statements I and II are correct.
(B) Statements II and III are correct.
(C) Statements I and III are correct.
(D) All statements I, II, III, and IV are correct.

May/June 2025

52. Arrange the following steps of the legal procedure of amalgamation in their correct chronological sequence:

I. Notice to the shareholders and creditors of the company
II. Application to the NCLT
III. Board Approvals of the Draft Amalgamation Proposal
IV. Conducting Meetings of Shareholders and Creditors

(A) III, II, I, IV
(B) II, III, IV, I
(C) III, I, II, IV
(D) I, II, III, IV

Oct/Nov 2009

53. Match the SEBI Takeover Code concept in List I with the correct numerical threshold in List II.

List I: SEBI Takeover Code Concept

P. Threshold triggering an open offer announcement
Q. Size of the open offer under current law
R. Creeping acquisition maximum per year
S. Escrow requirement for consideration above Rs. 100 crore

List II: Numerical Threshold

1. 5 percent
2. 10 percent

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May/June 2014

42. Which of the following encapsulates the primary purposes of the SEBI takeover guidelines?
(A) To ban combinations that negatively affect market competition and enforce antitrust laws.
(B) To provide financial support mechanisms for competent individuals undertaking buyouts.
(C) To impart greater transparency, ensure high disclosure, and protect the interest of small shareholders.
(D) To dictate the exact maximum offer price that a bidder can propose in a hostile takeover.

Oct/Nov 2022

43. Which of the following pairs correctly matches the takeover defence strategy to its mechanism?
(A) Golden Parachute — Selling the most valuable assets of the target company.
(B) White Knight — A friendly third party rescuing a target from a hostile raider.
(C) Creeping Enhancement — Initiating legal action against the bidding company.
(D) Staggered Board — Creating a new class of equity shareholders with better voting rights.

May/June 2023

44. Match the specific strategic error in List I with its description in List II.
List I: Strategic Error
P. Getting Way Too Far Away From It All
Q. Striving for Greatness
R. Plunging without thinking
S. Overpaying
List II: Description
1. Susceptibility to the "winner's curse" during competitive bidding.
2. Inadequate research on the seller's intangible assets and contingent liabilities.
3. Preoccupation with scale leading to rash decisions by managers building empires.
4. Wandering into unconnected, exotic business regions carrying a great deal of danger.
(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-4, R-1, S-2
(C) P-4, Q-1, R-2, S-3
(D) P-2, Q-3, R-4, S-1

Oct/Nov 2011

45. Consider the following statements regarding the factors used in determining an exchange ratio:
I. Book value per share is considered highly objective and completely free from subjective accounting judgments.
II. A ratio based on current earnings per share may fail to account for disparities in the pace of earnings growth between the two companies.
III. Market prices are a highly trustworthy reflection of value even when trading is exceptionally light and infrequent.
Which combination of statements is correct?
(A) Only Statement I is correct.
(B) Only Statement II is correct.
(C) Statements II and III are correct.
(D) All statements I, II, and III are correct.

Oct/Nov 2017

46. Which of the following represents a common motive for a company to execute a spin-off?
(A) To generate a massive influx of cash to pay off long-term corporate debt.
(B) To prevent a hostile takeover by spinning off a profitable segment, thereby making the parent company less appealing.
(C) To legally dissolve the parent company and form multiple autonomous entities.
(D) To transfer the control of the parent company to a white knight.

May/June 2005

47. Evaluate the following statements regarding a holding company structure:
I. A holding company must own one hundred percent of the investee business's equity to exert influence over it.
II. A holding company structure offers benefits such as central control, risk mitigation, and optimum utilisation of funds.
Which combination of statements is correct?
(A) Only Statement I is correct.
(B) Only Statement II is correct.
(C) Both Statement I and II are correct.
(D) Neither Statement I nor II is correct.

May/June 2017

48. Match the type of merger in List I with its description in List II.
List I: Type of Merger

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(A) Only Statement I is correct.
(B) Only Statement II is correct.
(C) Both Statement I and II are correct.
(D) Neither Statement I nor II is correct.

May/June 2009

60. Match the valuation parameter in List I with its definition in List II.
List I: Valuation Parameter
P. Status Quo Value
Q. Value of Control
R. Value of Synergy
S. Market Multiple Method
List II: Definition
1. Benefits arising from economies of scale, increased debt capacity, and shared services.
2. Value of the firm if optimally managed minus the value with current management.
3. Derived using DCF based on the existing explicit prediction period and balance period without operational changes.
4. Determines value by observing trading values of comparable businesses relative to their NOPAT or sales.

(A) P-3, Q-2, R-1, S-4
(B) P-2, Q-3, R-4, S-1
(C) P-3, Q-1, R-2, S-4
(D) P-4, Q-2, R-1, S-3

Oct/Nov 2007

61. Mergers and acquisitions are driven by multiple rationales. Which of the following statements accurately reflect these reasons?
I. Mergers allow companies to utilize surplus funds more effectively than paying significant dividends.
II. M&A activity offers a faster mode of growth compared to organic growth by reducing "Time to Market".
III. Vertical integration guarantees the best strategy in every situation by handling all operations in-house.
IV. Industry consolidation boosts efficiency by addressing surplus capacities.
V. Operating economies can be achieved through complementary resources, such as pairing a strong production system with an effective branch network.
Which combination of statements is correct?
(A) Statements I, II, IV, and V are correct.
(B) Statements I, II, III, and V are correct.
(C) Statements II, III, IV, and V are correct.
(D) All statements I, II, III, IV, and V are correct.

Oct/Nov 2013

62. In the following questions, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option:
Assertion (A): In the eyes of the shareholders of the acquired company, a transaction involving stock compensation does not constitute taxable income.
Reason (R): A transaction including cash compensation constitutes taxable income for the acquired company's shareholders because it represents an immediate financial realization.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2016

63. Which of the following are significant motives for a company to initiate a selloff?
I. To accumulate capital and improve liquidity.
II. To minimise monetary losses from an underperforming unit.
III. To sharpen the company's focus by discarding non-core activities.
IV. To realize a "reverse synergy" or "anergy" where the parts are worth more than the whole.
Which of the above statements is/are correct?
(A) Statements I, II, and III are correct.
(B) Statements II, III, and IV are correct.
(C) Statements I, III, and IV are correct.
(D) All statements I, II, III, and IV are correct.

Oct/Nov 2016

64. Company X intends to acquire Company Y using a stock swap. Company X has 40,00,000 outstanding shares at a market price of Rs. 100 per share (market value Rs. 40 crore). Company Y has 10,00,000 outstanding shares at a market price of Rs. 50 per share (market value Rs. 5 crore). Company X offers 10,00,000 of its newly issued shares in exchange for all the shares of Company Y. After the acquisition, what fraction (alpha) of the combined firm's share capital will the former shareholders of Company Y own?

NODIA

(B) Rs. 8.00 crore
(C) Rs. 10.00 crore
(D) Rs. 5.00 crore

May/June 2015

76. Under the SEBI Takeover Code, which of the following statements regarding the obligations of the Acquirer and Target Company are correct?

I. The acquirer must hire a Category I merchant banker registered with SEBI before making a public offer announcement.
II. The acquirer is responsible for delivering the letter of offer to shareholders within forty-five days of the public announcement.
III. During the public offer period, the Target Company's Board can freely dispose of assets without general shareholder approval.
IV. The target company's board is strictly prohibited from appointing additional directors during the offer without shareholder approval.

Which of the above statements is/are correct?
(A) Statements I, II, and III are correct.
(B) Statements I, II, and IV are correct.
(C) Statements II, III, and IV are correct.
(D) All statements I, II, III, and IV are correct.

Oct/Nov 2018

77. Firm Alpha (PV Rs. 200 crore) proposes to acquire Firm Beta (PV Rs. 50 crore) by offering a direct cash compensation of Rs. 60 crore to Beta's shareholders. What is the Net Present Value (NPV) of the merger to Firm Beta?
(A) Rs. 30 crore
(B) Rs. 40 crore
(C) Rs. 60 crore
(D) Rs. 10 crore

Oct/Nov 2009

78. Identify the correct steps and principles involved in the financial evaluation of a sell-off:

I. Formulate an estimate for the after-tax cash flow of the division.
II. Establish a discount rate for the division reflective of its specific risks.
III. Calculate the present value of the division's post-tax cash flows.
IV. Determine the fair value of the liabilities specific to the division.
V. If the Divestiture Proceeds (DP) are strictly less than the Value of Ownership Position (VOP), the decision rule is to put the division up for sale.

Which of the above statements is/are correct?
(A) Statements I, II, III, and IV are correct.
(B) Statements I, II, IV, and V are correct.
(C) Statements II, III, IV, and V are correct.
(D) All statements I, II, III, IV, and V are correct.

Oct/Nov 2024

79. In the following questions, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option:
Assertion (A): Shareholders usually experience a massive net gain in value due to the lower cost of debt achieved when two firms merge.
Reason (R): In an effectively functioning market, the advantage of a lower debt cost is cancelled out by the additional burden placed on the equity shareholders to safeguard the creditors of the newly combined firm.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2014

80. In the following questions, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option:
Assertion (A): A reverse merger is frequently utilised by smaller, unlisted companies to acquire larger, publicly listed companies.
Reason (R): The primary motivation for a reverse merger is to bypass the lengthy and complicated process associated with an Initial Public Offering (IPO).
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2011

81. Delta Corp is evaluating whether to sell off its logistics division. The present value of the logistics division's specific future cash flows is

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held for more than 36 months are subject to taxation as long-term capital gains.

III. For long-term capital gains in a slump sale, the assessee can take full advantage of the benefits of indexation.

IV. Capital gains from the transfer of an undertaking held for not more than 36 months are considered short-term capital gains.

V. The capital gain is calculated as the difference between the sale consideration and the net worth of the transferred undertaking.

Which combination of statements is correct?

(A) Statements I, II, IV, and V are correct.
(B) Statements I, II, III, and V are correct.
(C) Statements II, III, IV, and V are correct.
(D) All statements I, II, III, IV, and V are correct.

May/June 2018

71. Delta Corp's logistics division has a present value of future cash flows of Rs. 150 crore and division-specific liabilities of Rs. 40 crore. What is the calculated Value of the Ownership Position (VOP) for this division?

(A) Rs. 110 crore
(B) Rs. 40 crore
(C) Rs. 120 crore
(D) Rs. 190 crore

Oct/Nov 2020

72. Regarding acquisition financing by Indian companies, which of the following statements are correct?

I. The loan is typically received by an overseas subsidiary or a special purpose entity formed overseas.

II. Financing is exclusively provided by domestic branches of Indian banks, excluding international institutions.

III. Lenders heavily evaluate the acquirer's cash flow, typically lending between three and six times EBITDA.

IV. The cost of acquisition finance is generally about 200 basis points more than standard financing charges.

Which of the above statements is/are correct?

(A) Statements I, II, and III are correct.
(B) Statements I, III, and IV are correct.
(C) Statements II, III, and IV are correct.
(D) All statements I, II, III, and IV are correct.

May/June 2013

73. In the following questions, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option:

Assertion (A): The National Company Law Tribunal (NCLT) has the legal authority to make changes to a proposed scheme of amalgamation and issue orders that reflect those changes.

Reason (R): The NCLT must unconditionally sanction any amalgamation scheme if it is approved by a 75 percent majority of shareholders, regardless of whether it is equitable and reasonable.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

NODIA

Oct/Nov 2006

74. In the following questions, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option:

Assertion (A): When the stock of the acquiring company is overvalued in comparison to the target company, making payments in stock rather than cash can be the more cost-effective option.

Reason (R): Paying with overvalued stock allows the acquirer to utilize fewer real economic resources than if they had paid the equivalent market value entirely in cash.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2005

75. Company X (PV Rs. 40 crore) acquires Company Y (PV Rs. 5 crore) by issuing 10,00,000 new shares, making total shares 50,00,000. If the total PV of the combined entity is Rs. 50 crore, what is the true cost to Company X of acquiring Company Y?

(A) Rs. 6.00 crore

3. 25 percent
4. 26 percent

(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

Oct/Nov 2012

54. Evaluate the following statements regarding the Discounted Cash Flow (DCF) valuation method:

I. The future is divided into two distinct time periods: the explicit prediction period and the balance period (steady state).
II. The value of the transaction is determined solely by the present value of the explicit forecast period's free cash flows, ignoring the horizon value.

Which combination of statements is correct?

(A) Only Statement I is correct.
(B) Only Statement II is correct.
(C) Both Statement I and II are correct.
(D) Neither Statement I nor II is correct.

May/June 2006

55. Which of the following correctly pairs a divestiture concept with its alternative name?

(A) Partial Selloff — Slump Sale
(B) Spin-off — Equity Carve Out
(C) Split-up — Demerger by absorption
(D) Greenmail — Divestment by Proxy

Oct/Nov 2008

56. What is the fundamental structural difference between a spin-off and a split-up?

(A) In a spin-off, the parent company continues to exist, whereas in a split-up, the entire company is divided into independent companies and the parent is dissolved.
(B) In a spin-off, the parent company ceases to exist, whereas in a split-up, the parent company retains a controlling stake.
(C) A spin-off involves a public offering of shares, whereas a split-up is restricted exclusively to family-owned businesses.
(D) A spin-off operates on the anergy principle, while a split-up operates on the synergy principle.

May/June 2021

57. Consider the following statements about accounting for business combinations under Ind AS 103:

I. The acquisition procedure applies to all business combinations including common control business combinations.
II. Recognizing and measuring goodwill or a gain from a bargain purchase is a step in the acquisition procedure.
III. The pooling of interests method records the assets and liabilities at their carrying amounts without reflecting fair values.

Which of the above statements is/are correct?

(A) Statements I and II are correct.
(B) Statements II and III are correct.
(C) Statements I and III are correct.
(D) All statements I, II, and III are correct.

May/June 2010

58. Match the anti-takeover defence in List I with its description in List II.

List I: Anti-takeover Defence

P. Greenmail
Q. Pacman defence
R. Poison pills
S. Crown Jewels

List II: Description

1. The target firm makes a deal with the bidder to buy back shares at a premium to halt the takeover.
2. The target firm decides to sell its most valuable assets to make itself less desirable.
3. The target subjects the bidding company to a counterbid.
4. Existing shareholders are given rights to buy convertible bonds/preference stock on favourable terms.

(A) P-1, Q-3, R-4, S-2
(B) P-3, Q-1, R-2, S-4
(C) P-4, Q-2, R-1, S-3
(D) P-1, Q-4, R-3, S-2

Oct/Nov 2019

59. Evaluate the following statements regarding the tax benefits of an amalgamation under the Income Tax Act:

I. All of the properties and liabilities of the amalgamating company must become properties and liabilities of the amalgamated company.
II. Shareholders holding at least 50 percent in value of the amalgamating company's shares must become shareholders of the amalgamated company.

Which combination of statements is correct?

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Rs. 150 crore. The present value of the division-specific liabilities is Rs. 40 crore. How is the Value of the Ownership Position (VOP) in the division calculated?

(A) Present value of cash flows plus division-specific liabilities.
(B) Division-specific liabilities minus present value of cash flows.
(C) Present value of cash flows minus division-specific liabilities.
(D) Divestiture Proceeds minus present value of cash flows.

May/June 2007

82. Consider the following statements regarding the different forms of divestment:

I. A partial selloff occurs when a corporation transfers ownership of an asset to another entity for cash or securities.
II. In a spin-off, the same shareholders continue to own the newly established business in the same proportion as the original company.
III. A split-up entails splitting a company into multiple independent companies, and the parent company continues to operate.
IV. An equity carve-out involves a parent company selling shares of a subsidiary in the market via a public offer, bringing in cash.
V. A demerger can be an efficient method for splitting a large family-owned business empire to address succession problems.

Which combination of statements is correct?

(A) Statements I, II, III, and IV are correct.
(B) Statements I, II, IV, and V are correct.
(C) Statements II, III, IV, and V are correct.
(D) All statements I, II, III, IV, and V are correct.

Oct/Nov 2008

83. In the following questions, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option:

Assertion (A): Investors generally do not receive any value benefit from a corporate merger solely aimed at diversification.

Reason (R): Investors can easily engage in "home-made" diversification by purchasing stocks of different companies to reduce risk in their own portfolios, providing them more flexibility.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2017

84. Firm Alpha has a standalone present value of Rs. 200 crore, while Firm Beta has a standalone present value of Rs. 50 crore. Merging the two results in synergistic benefits of Rs. 40 crore. Alpha offers a cash compensation of Rs. 60 crore to acquire Beta. What is the Net Present Value (NPV) of the merger to Firm Alpha?

(A) Rs. 10 crore
(B) Rs. 40 crore
(C) Rs. 30 crore
(D) Rs. 50 crore

Oct/Nov 2010

85. In the following questions, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option:

Assertion (A): Divestitures are logically driven by the "synergy principle," which implies that combining assets will always increase their total value.

Reason (R): When the components of a company are worth more separately than together, it exhibits "anergy," making a sell-off highly beneficial to shareholders.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2005

86. In order to improve chances of creating value through a disciplined acquisition programme, a corporation needs to fulfil which of the following requirements?

I. Keep attention on the Right Targets.
II. Ensure that synergies are accurately estimated to avoid the "synergy trap."
III. Delegate both analysis and negotiation to a single team to maintain pure focus.
IV. Plan and control the integration by

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(A) 0.10
(B) 0.15
(C) 0.20
(D) 0.18

May/June 2012

65. In the following questions, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option:
Assertion (A): In a merger where a high-growth company acquires a low-growth company through a stock swap, an immediate increase in earnings per share (EPS) guarantees that genuine new economic value has been created.
Reason (R): An inefficient market may be hypnotised by the allure of earnings growth and maintain the original high price-earnings ratio, temporarily inflating the combined firm's market price.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2018

66. Company X acquires Company Y using a stock swap (Company X issues 10,00,000 new shares to Company Y's shareholders). The combined entity value is Rs. 50 crore, Company X's standalone value is Rs. 40 crore, and Company Y's standalone value is Rs. 5 crore. What is the Net Present Value (NPV) of the acquisition to Company X?
(A) Rs. 0.00 crore
(B) Rs. 2.00 crore
(C) Rs. 5.00 crore
(D) Rs. 10.00 crore

May/June 2007

67. Consider the following principles for the regulation of takeovers of existing companies:
I. The process ought to be carried out in an open and transparent fashion.
II. Takeover rules should ensure that minority shareholders face a deliberate disadvantage to incentivize block acquisitions.
III. The acquirer needs leeway to restructure operations to realize economic gains.
IV. Takeovers should be the exclusive domain of those who possess the necessary personal financial investments, excluding institutional credit.
Which combination of statements is correct?
(A) Statements I and III are correct.
(B) Statements II and IV are correct.
(C) Statements I, II, and III are correct.
(D) Statements I, III, and IV are correct.

Oct/Nov 2025

68. In the following questions, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct option:
Assertion (A): A staggered board of directors is considered an effective pre-offer anti-takeover defence.
Reason (R): It prevents an acquiring firm from replacing the entire board of directors arbitrarily in a single year, thereby delaying the acquirer's ability to take control.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2011

69. Firm Alpha has a standalone present value of Rs. 200 crore, while Firm Beta has a standalone present value of Rs. 50 crore. Firm Alpha proposes to acquire Firm Beta by offering a direct cash compensation of Rs. 60 crore to Beta's shareholders. From the perspective of Firm Alpha, what is the exact "Cost" of acquiring Firm Beta?
(A) Rs. 10 crore
(B) Rs. 40 crore
(C) Rs. 50 crore
(D) Rs. 60 crore

Oct/Nov 2014

70. Evaluate the following statements related to the tax aspects of a sell-off (slump sale):
I. A slump sale refers to the transfer of undertakings for a lump sum consideration without assigning values to individual assets.
II. Profits from a slump sale of an undertaking

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companies.
(B) By summing the squares of the market shares of all companies in the sector.
(C) By squaring the sum of all market shares.
(D) By multiplying the market shares of the top two companies.

Oct/Nov 2016

93. Delta Corp evaluates its logistics division which has a Value of Ownership Position (VOP) of Rs. 110 crore. A competing firm offers Divestiture Proceeds (DP) of Rs. 120 crore to acquire the division fully. According to the decision rule for the divestment of assets, what action should Delta Corp take?
(A) DP < VOP; therefore, Delta Corp should maintain the separation (keep the division).
(B) DP = VOP; therefore, Delta Corp should remain indifferent.
(C) Divestiture should proceed only if DP exceeds VOP by 50 percent.
(D) DP > VOP; therefore, Delta Corp should put the division up for sale.

Oct/Nov 2020

94. Orion Manufacturing and Nebula Tech have drafted a scheme of amalgamation. During the convened meeting of shareholders, what is the minimum statutory approval threshold required for the scheme of amalgamation to be passed?
(A) At least 50 percent (in value) of shareholders present and voting.
(B) At least 66.67 percent (in value) of shareholders present and voting.
(C) At least 75 percent (in value) of shareholders who vote in person, by proxy, or through postal ballot.
(D) 100 percent consent from all registered shareholders.

May/June 2010

95. A market consists of six companies: two with 30 percent share and four with 10 percent share. If the two largest companies successfully merge, what will be the new HHI of the entire sector?
(A) 4000
(B) 2200
(C) 3600
(D) 5400

Oct/Nov 2023

96. A market is comprised of exactly 6 companies. The two largest hold 30 percent each. The remaining four companies each hold a 10 percent market share. What is the HHI contribution of the four smaller companies combined?
(A) 40
(B) 100
(C) 400
(D) 1600

May/June 2006

97. Jupiter Investments currently holds an 18 percent stake in Saturn Ltd. If they purchase a block of shares bringing its total holding to 30 percent, under the SEBI Takeover Code, they must now make a public announcement for an open offer to acquire at least what additional percentage of shares?
(A) 26 percent
(B) 15 percent
(C) 20 percent
(D) 25 percent

Oct/Nov 2019

98. Jupiter Investments holds an 18 percent equity stake in Saturn Ltd. They plan to increase their stake without triggering an open offer under SEBI's Takeover Code. What is the maximum additional equity stake Jupiter Investments can acquire in a single financial year without triggering an open offer?
(A) 2 percent
(B) 5 percent
(C) 10 percent
(D) 15 percent

May/June 2025

99. A market is comprised of exactly 6 companies. Two companies hold 30 percent share each, and four companies hold 10 percent share each. What is the total HHI of the sector?
(A) 1000
(B) 1800
(C) 2200
(D) 3600

Oct/Nov 2013

100. Orion Manufacturing and Nebula Tech are undergoing an amalgamation. During the regulatory process, a dissenting creditor wishes to object. According to the regulations, what is the minimum threshold of outstanding debt this

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42. (C) To impart greater transparency, ensure high disclosure, and protect the interest of small shareholders.
Takeover guidelines serve as a regulatory framework to govern changes in corporate control. Their primary objective is to maintain market integrity by mandating full disclosure of an acquirer's intentions and financial standing. By requiring mandatory open offers at specified thresholds, the rules ensure that minority shareholders are not left stranded and can exit the company under equitable terms and pricing.

43. (B) White Knight — A friendly third party rescuing a target from a hostile raider.
Corporate defense strategies use specific terminology to describe various protective actions. A White Knight is a supportive acquirer who intervenes to prevent a hostile takeover by offering better terms or a more compatible partnership. Other terms like golden parachutes refer to management compensation, while crown jewels involve asset sales. Creeping enhancement is an ownership consolidation tactic rather than a legal action against bidders.

44. (A) P-4, Q-3, R-2, S-1
Failed acquisitions often stem from specific strategic errors. Entering unrelated business sectors poses high risks, often termed as getting too far away. Empire-building tendencies can lead managers to strive for scale without value. Plunging without thinking involves inadequate due diligence on liabilities. Finally, the competitive nature of bidding often leads to overpaying for targets, a phenomenon widely known as the winner's curse.

45. (B) Only Statement II is correct.
Determining a fair exchange ratio requires careful analysis of various financial metrics. While current earnings per share are useful, they may not capture long-term growth differences between merging companies. Book values are often criticized as they rely on historical costs and subjective accounting choices. Furthermore, market prices can be misleading and unreliable when shares are thinly traded and do not reflect true value.

46. (B) To prevent a hostile takeover by spinning off a profitable segment, thereby making the parent company less appealing.
Companies utilize spin-offs for various strategic purposes. One common motive is to deter hostile acquirers by separating the firm's most attractive or profitable divisions into independent entities. This reduces the crown jewel appeal of the parent company, making it a less desirable target. Additionally, spin-offs can help management focus on core operations or unlock value hidden in conglomerate structures.

47. (B) Only Statement II is correct.
A holding company structure provides a framework for managing multiple business interests through a central entity. It allows for efficient fund utilization, risk diversification across different sectors, and centralized strategic control. Contrary to some assumptions, a holding company does not need to own one hundred percent of a subsidiary's equity to exert significant influence or control over its management and operations.

48. (A) P-3, Q-1, R-4, S-2
Mergers are categorized by the nature of the relationship between the participating entities. Conglomerate mergers involve completely unrelated businesses. Vertical mergers combine firms with buyer-seller relationships. Congeneric mergers involve companies that are related through technology or markets but do not compete directly. Finally, a reverse merger occurs when a private, unlisted company gains public status by acquiring a larger, publicly listed firm.

49. (A) Discounted Cash Flow — Employs market value to NOPAT multiple to determine status quo value.
Valuation methods rely on different financial inputs to estimate a firm's worth. The discounted cash flow method specifically focuses on the present value of projected future cash flows and the cost of capital. In contrast, using a multiple of market value to operating profit is characteristic of the market multiple method. Other approaches include dividend discount models and price-earnings analysis.

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ANSWERS

1. (C) 90 percent
Regulatory provisions specify that a creditors' meeting to approve an amalgamation scheme can be bypassed if a significant majority of creditors agree in writing. This threshold is reached when creditors representing ninety percent of the total value of debt provide their consent via affidavits. This streamlining measure facilitates faster corporate restructuring when there is overwhelming consensus.

2. (C) It is the difference between value under optimal management and value under current management.
In the context of business acquisitions, the value of control represents the potential increase in a firm's worth when management practices are improved. It is quantitatively defined as the gap between the firm's valuation under its existing leadership and the valuation achievable under optimal strategic and operational management. This premium motivates acquirers to seek controlling interests.

3. (C) A smaller, unlisted company acquires a larger, publicly listed company.
This specific corporate transaction involves a private entity merging with a public shell or a larger listed firm to gain public status. By doing so, the unlisted business avoids the rigorous, expensive, and time-consuming process of an initial public offering. The private firm's shareholders typically exchange their shares for a majority stake in the public entity.

4. (C) Greenmail is when a target firm sues the bidder for violating national anti-trust laws.
Anti-takeover mechanisms vary in their approach to deterring hostile raiders. Greenmail refers specifically to a target firm purchasing its own shares back from a potential acquirer at a significant premium to halt a takeover attempt. Suing a bidder for anti-trust violations is a distinct legal strategy intended to delay or block the acquisition through regulatory intervention.

5. (B) A bidder grossly overpaying for a target due to misjudged value in a competitive environment.
The winner's curse occurs during competitive bidding scenarios where the successful acquirer pays more than the target's intrinsic value. This overpayment often stems from irrational exuberance or an inadequate assessment of synergies. Consequently, although the bidder wins the auction, the financial outcome of the transaction leads to a reduction in shareholder value for the acquiring firm.

6. (B) Pacman defence
Defensive strategies in mergers are categorised based on when they are implemented. Pre-offer defences like staggered boards, poison puts, and dual-class shares are established in advance to deter potential bidders. The Pacman defence is a post-offer reactive strategy where the target firm launches a counter-takeover bid for the shares of the hostile company attempting to acquire it.

7. (B) The shareholders of each amalgamating company become largely the shareholders in the amalgamating company.
An amalgamation involves the combination of multiple entities into a single survivor or a completely new corporate structure. A defining characteristic of this process is the continuity of interest, where the owners of the original businesses transition to becoming shareholders of the combined entity. This ensures the blending of assets, liabilities, and equity interests into one unified organisation.

8. (B) A horizontal merger often leads to the newly consolidated company having a larger market share than its predecessors.
Mergers are classified by the relationship between the participating firms. Horizontal mergers involve companies operating within the same industry and stage of production. By combining with a competitor, the resulting entity increases its market presence and potentially achieves greater economies of scale. In contrast, vertical mergers involve different stages of the supply

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creditor must hold to be allowed to legally voice their opposition?
(A) More than 2 percent
(B) More than 10 percent
(C) More than 25 percent
(D) More than 5 percent

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17. (A) Adjustments are systematically made to reflect the fair values of the acquired assets and liabilities.
Under the pooling of interests method, the financial statements of combining entities are joined using their existing carrying amounts. This approach assumes that the transaction is a merger of equals rather than a purchase. Consequently, assets and liabilities are not revalued to fair market levels. Adjustments are only made to align accounting policies or reconcile differences in capital structures.

18. (B) When combined holdings equal or exceed 25 percent of the total stock.
Takeover regulations establish specific ownership thresholds that necessitate transparency and minority protection. When an acquirer's total shareholding reaches twenty-five percent of a company's voting rights, a mandatory requirement is triggered to make a public announcement for an open offer. This ensures that smaller shareholders have an opportunity to exit the company at a fair price when control shifts.

19. (D) The newly formed business must distribute shares on a proportional basis to the shareholders of the firm that will be demerged.
Tax legislation provides incentives for demergers that maintain the continuity of shareholder interest. A primary condition for eligibility is that the resulting company must issue shares to the shareholders of the original demerged entity on a pro-rata basis. This ensures that the ownership structure remains consistent across the split entities, qualifying the transaction for favourable capital gains tax exemptions.

20. (C) Merger arbitrage
Investors and financial institutions often engage in specialized trading strategies focused on corporate reorganizations. Merger arbitrage involves purchasing the shares of a target company after a takeover bid is announced while simultaneously selling short the shares of the acquirer. This technique seeks to profit from the price discrepancy and the eventual closing of the deal's spread.

21. (C) Both partners maintain strictly independent financial systems with no shared resources.
Productive business partnerships depend on several critical success factors. These include having complementary strengths, clear definitions of roles, and aligned financial expectations. The essence of a partnership lies in the synergy created by pooling resources and expertise. Maintaining entirely separate financial systems and refusing to share resources would fundamentally undermine the cooperative nature and strategic goals of such an alliance.

22. (B) More than 5 percent
Legal procedures for corporate restructuring allow stakeholders to express concerns regarding proposed schemes. To prevent frivolous litigation, the law sets a minimum threshold for eligibility to object before the National Company Law Tribunal. A creditor must hold more than five percent of the company's total outstanding debt to have the standing required to formally oppose an amalgamation proposal.

23. (D) Real economies reduce factor inputs; pecuniary economies reduce bulk transaction prices.
Operating synergies in mergers are categorized based on how they improve profitability. Real economies involve genuine efficiency gains, such as reducing the physical quantity of inputs required for production. In contrast, pecuniary economies represent savings achieved through greater bargaining power, such as obtaining lower prices for raw materials or credit through bulk purchasing and improved standing in financial markets.

24. (D) Capital gains realised from a slump sale are unconditionally exempt from income tax.
While amalgamations can offer various tax benefits, the transfer of a business undertaking via a slump sale is generally a taxable event. The resulting profits are classified as capital gains and are subject to tax based on the duration the undertaking was held. Other benefits, such as deductions for technical know-how or patent costs, are available if specific statutory conditions are met.

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25. (B) The Commission has one year to investigate a combination if pre-approval was not obtained.
The Competition Commission of India regulates corporate combinations to prevent significant adverse effects on market competition. Companies must notify the Commission of proposed mergers within specified timelines following board approval. If a combination is completed without prior authorization, the regulator retains the power to investigate the transaction for up to one year to ensure it does not create a monopoly.

26. (D) It sells part of its ownership in a subsidiary to the public or strategic investors.
In an equity carve-out, a parent company creates a new legal entity for a subsidiary and sells a portion of its interest to outside investors through a public offering. This strategy allows the parent to raise capital and establish a market valuation for the unit while typically retaining a controlling stake. It differs from a spin-off where no cash is raised.

27. (A) When one of the merging companies is not traded in the marketplace, making home-made diversification impossible.
Diversification at the corporate level is often criticized because investors can achieve the same result more flexibly by holding a varied portfolio of stocks. However, this homemade diversification is only feasible if the companies are publicly traded. If a target firm is unlisted, a merger becomes the only practical way for shareholders to gain exposure to that specific business segment.

28. (C) 25 percent
To ensure the financial viability of an acquisition attempt, takeover codes require the establishment of an escrow account. For public offers where the total consideration does not exceed one hundred crore rupees, the acquirer must deposit twenty-five percent of the value. This deposit acts as security, guaranteeing that funds are available to satisfy the claims of shareholders who accept the offer.

29. (C) Corporate diversification via merger is the most universal way for investors to reduce risk.
Mergers are driven by various strategic motives, including economies of scale, tax advantages, and improved management. While diversification can stabilize corporate earnings, it is not considered the most efficient risk-reduction tool for individual investors. Most market participants can achieve better, more flexible diversification at a lower cost by simply adjusting their own portfolios rather than relying on complex corporate mergers.

30. (D) The sum of two and two is equal to three.
Divestitures are often motivated by the realization that certain business units perform better as independent entities. The anergy principle suggests that the combined value of a company's divisions is less than the sum of their individual parts. By selling off underperforming or non-core segments, the parent company can unlock hidden value and improve the overall efficiency of its remaining operations.

31. (A) II, IV, I, III
Standardized accounting for business combinations involves a rigorous four-step procedure. First, the specific acquirer must be identified. Next, the exact acquisition date is determined to establish when control transferred. The third step involves measuring the acquired assets and liabilities at fair value. Finally, any resulting goodwill or gain from a bargain purchase is calculated and recognized on the balance sheet.

32. (B) Complementary Resources — Increasing the average cost of production
Strategic synergies are intended to improve the financial performance of combined entities. Utilizing complementary resources, such as pairing a strong brand with an extensive distribution network, should ideally lower costs or boost revenues. An increase in the average cost of production would represent a lack of synergy or an operational inefficiency, contradicting the fundamental rationale behind seeking complementary business strengths.

33. (B) It brings an influx of cash into the parent business by selling shares of the newly created company to new investors.
Equity carve-outs and spin-offs are both forms of divestiture, but they differ in their financial impact on the parent firm. A spin-off involves a pro-rata distribution of subsidiary shares

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to existing shareholders, resulting in no cash inflow. In contrast, an equity carve-out involves selling shares to the public or strategic investors, providing the parent company with immediate liquidity.

34. (A) Only Statement I is correct.
Leveraged buyouts involve acquiring a company using significant amounts of borrowed capital. A management buyout is a specific type where the existing leadership team purchases the firm. The high debt burden associated with these transactions actually serves to improve management discipline. The mandatory requirement to service debt interest and principal prevents complacency and forces the team to optimize operational efficiency.

35. (A) P-2, Q-1, R-3, S-4
Regulatory pricing guidelines use various look-back periods to determine fair offer prices. The volume-weighted average price of prior acquisitions is measured over fifty-two weeks. The highest price paid for any single purchase is scrutinized over twenty-six weeks. Market price averages are calculated over sixty trading days, while the determination of frequently traded status relies on turnover data from the preceding twelve months.

36. (B) Statements II and III are correct.
Ideal candidates for leveraged buyouts possess specific financial and operational traits. High debt levels require stable, predictable cash flows rather than volatile ones. Additionally, companies with low capital expenditure requirements and assets that can be easily liquidated are preferred. These characteristics ensure that the business can reliably meet its interest obligations while providing opportunities to pay down the acquisition debt quickly.

37. (A) Book values are subjective accounting judgments that ignore changes in currency purchasing power.
When establishing exchange ratios, market prices are often preferred over book values. Book values represent historical costs and are subject to various accounting estimations, which may not reflect current economic reality or the effects of inflation. Market prices, while potentially volatile, provide a real-time assessment of a company's earning potential, growth prospects, and the true value of its intangible assets.

38. (A) P-3, Q-1, R-4, S-2
Major Indian corporate transactions highlight different strategic approaches. The HDFC merger significantly influenced recent market activity. The Mindtree and L&T Infotech combination was a notable all-stock deal. Tata Motors' acquisition of Jaguar Land Rover was primarily a cash-based transaction. Finally, Tata Tea's purchase of Tetley is a classic example of an Indian firm successfully utilizing a leveraged buyout strategy for international expansion.

39. (A) Only Statement I is correct.
Financing choices in acquisitions have strategic implications for the bidder. If a company's stock is overvalued, using it as currency for an acquisition allows the firm to pay for the target with fewer real economic resources. However, unlike cash transactions, stock-based deals mean that the target's shareholders will continue to participate in the combined entity's future risks and potential rewards.

40. (A) P-3, Q-4, R-1, S-2
Divestitures take several distinct forms depending on the desired outcome. A sell-off involves transferring an asset directly to another firm for compensation. A spin-off distributes shares of a new company to existing stockholders without generating cash. A split-up results in the dissolution of the parent into independent parts. Finally, an equity carve-out involves a public offering of subsidiary shares to raise capital.

41. (B) Statements I and III are correct.
Target companies employ various tactics to resist takeovers. Management can issue preferential allotments to promoters to consolidate control and make acquisition harder. Another strategy is selling the crown jewels, which are the firm's most valuable assets, to diminish its attractiveness to raiders. However, creeping enhancements are not unlimited; regulations strictly cap the additional percentage that can be acquired annually.

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59. (A) Only Statement I is correct.
For an amalgamation to qualify for tax neutrality under the Income Tax Act, it must satisfy rigorous criteria regarding asset and liability transfers. All properties and obligations of the amalgamating firm must transition to the combined entity. Additionally, at least seventy-five percent of the original shareholders must become shareholders of the new firm. Meeting only fifty percent would fail this statutory requirement.

60. (A) P-3, Q-2, R-1, S-4
Accurate valuation requires understanding different components of a firm's potential worth. The status quo value represents the firm under current management without operational changes. The value of control reflects improvements possible under optimal leadership, while the value of synergy captures benefits from combining firms. Finally, the market multiple method estimates value by comparing the firm to similar publicly traded businesses.

61. (A) Statements I, II, IV, and V are correct.
Mergers are driven by multiple rationales including faster growth, efficient use of surplus cash, and industrial consolidation. Synergy is often achieved by pairing complementary resources like production and distribution networks. While vertical integration can secure supply chains, it is not always the best strategy, as outsourcing sometimes provides greater flexibility or lower costs. Therefore, internalizing all operations is not universally optimal.

62. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
The tax treatment of an acquisition depends on the form of payment received by the target's shareholders. Stock-based compensation often qualifies for tax deferral because it represents a continuation of investment in a new entity. Conversely, cash compensation is treated as an immediate financial realization and is generally subject to capital gains tax. While both statements are accurate, they describe distinct tax principles.

63. (D) All statements I, II, III, and IV are correct.
Companies initiate selloffs for several strategic and financial reasons. These include raising capital to improve liquidity, stopping losses from underperforming divisions, and sharpening corporate focus on core activities. Additionally, selloffs are used to address anergy, where the individual components of a business are worth more independently than they are when combined within a single conglomerate structure.

64. (C) 0.20
Calculating the ownership fraction in a stock swap involves determining the ratio of new shares issued to the total post-merger share count. In this scenario, the acquiring firm issues one million new shares to the target's shareholders, adding to its existing four million shares. With a total of five million shares outstanding, the former target shareholders hold exactly twenty percent of the company.

65. (D) Assertion (A) is false, but Reason (R) is true.
An increase in earnings per share following a stock-financed merger does not necessarily indicate the creation of real economic value. This bootstrapping effect often occurs when a high price-earnings firm acquires a low price-earnings firm. While the market might be temporarily misled by the growth in earnings, the fundamental value of the company remains unchanged unless genuine operational synergies are achieved.

66. (A) Rs. 0.00 crore
The net present value of an acquisition is the difference between the synergistic gains and the cost of the transaction. Here, the combined value of fifty crore rupees implies five crore rupees in synergy over the standalone values. Since the cost of the stock issued also equals five crore rupees, the net gain to the acquirer is zero, representing a fair exchange.

67. (A) Statements I and III are correct.
Takeover regulations are designed to balance market efficiency with stakeholder protection. The process must remain transparent and allow acquirers the freedom to restructure operations to unlock economic value. However, principles generally aim to protect minority shareholders rather than disadvantage them. Additionally, excluding institutional credit is not a standard regulatory principle, as financing is often essential for such large corporate transactions.

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50. (A) P-4, Q-3, R-2, S-1
Investment banks perform several essential roles during corporate restructurings. They act as matchmakers by identifying potential merger partners for firms with excess capital. They also assist target companies in developing defenses against hostile bids and provide fairness opinions to validate transaction prices for shareholders. Additionally, they may engage in arbitrage operations by speculating on the stock price movements of takeover targets.

51. (C) Statements I and III are correct.
Spin-offs and split-ups are both methods of corporate demerger with similar economic results. In a spin-off, the parent company continues to exist alongside the new independent entity. However, in a split-up, the entire parent firm is divided into multiple new companies, and the original parent entity is legally dissolved. Despite these structural differences, both strategies aim to improve organizational focus.

52. (A) III, II, I, IV
The legal process for an amalgamation follows a mandatory chronological sequence in many jurisdictions. The process begins with the boards of the participating companies approving a draft proposal. Subsequently, an application is submitted to the National Company Law Tribunal. After this, formal notices are dispatched to all shareholders and creditors, eventually leading to the actual meetings where the scheme is debated.

53. (A) P-3, Q-4, R-1, S-2
Regulatory frameworks for takeovers utilize specific numerical thresholds to govern corporate actions. Crossing twenty-five percent ownership triggers the requirement for a public announcement. The mandatory open offer must then be made for at least twenty-six percent of the shares. Creeping acquisitions are capped at five percent annually, while escrow deposits are adjusted based on the total value of the proposed transaction.

54. (A) Only Statement I is correct.
The discounted cash flow method is a comprehensive approach to valuation that accounts for the time value of money. It typically splits the future into an explicit forecast period and a subsequent steady state. To arrive at an accurate total value, the analysis must include both the present value of the explicit cash flows and the terminal or horizon value.

55. (A) Partial Selloff — Slump Sale
Divestiture terminology often includes synonyms for similar corporate actions. A partial sell-off, where an undertaking is transferred as a going concern for a lump sum, is commonly referred to as a slump sale. This differs from other forms like spin-offs or equity carve-outs, which involve different methods of distributing or selling shares rather than the direct sale of assets.

56. (A) In a spin-off, the parent company continues to exist, whereas in a split-up, the entire company is divided into independent companies and the parent is dissolved.
While both spin-offs and split-ups involve the creation of independent entities from a parent firm, their legal outcomes for the original company differ. In a spin-off, the parent organisation maintains its corporate identity and continues its operations. Conversely, a split-up involves a complete division of the firm's assets into several new companies, resulting in the legal dissolution of the parent.

57. (B) Statements II and III are correct.
Accounting standards for business combinations provide specific rules for different transaction types. The recognition and measurement of goodwill or bargain purchase gains are standard components of the acquisition procedure. Under the pooling of interests method, assets and liabilities are recorded at their existing carrying amounts. However, this method is typically applied to common control transactions rather than all general business combinations.

58. (A) P-1, Q-3, R-4, S-2
Target firms utilize various mechanisms to fend off hostile bids. Greenmail involves buying back a raider's shares at a premium. The Pacman defense is a counter-takeover attempt by the target. Poison pills offer existing shareholders the right to purchase discounted securities to dilute the bidder. Finally, the crown jewels strategy involves selling off the company's most valuable assets to discourage acquirers.

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chain, while conglomerates involve unrelated business lines.

9. (B) The consent of the RBI must be sought for every merger between two domestic companies.
The legal framework for domestic amalgamations primarily involves the National Company Law Tribunal. While sector-specific regulators like the Reserve Bank of India oversee mergers in the banking industry, their approval is not a universal requirement for every corporate merger in India. Other standard procedures include obtaining board approval, notifying stakeholders, and adhering to strict timelines for shareholder and creditor meetings.

10. (B) Five business days
The Securities and Exchange Board of India mandates strict timelines for transparency during takeovers. Following the initial public announcement of an offer, a merchant banker must publish a detailed public statement in newspapers within five business days. This disclosure ensures that shareholders receive comprehensive information regarding the acquirer, the offer price, and the strategic intentions behind the proposed transaction.

11. (D) Replacement Cost of Intangible Assets
Determining an equitable exchange ratio involves comparing the relative values of the merging companies. Standard valuation metrics include the book value per share, earnings per share, and the present value of anticipated dividends. While tangible assets are assessed, the replacement cost of intangible assets is rarely used as a standalone basis for calculating the number of shares to be issued.

12. (C) A slump sale
A transaction where an entire business undertaking is transferred as a going concern for a single lump sum amount is known as a slump sale. In this arrangement, individual values are not assigned to specific assets or liabilities during the sale. This method is often chosen for its administrative simplicity and specific tax treatments under the Income Tax Act.

13. (A) Acquirers holding 25-75% can buy up to 5% per year without an open offer.
Creeping acquisitions allow significant shareholders to gradually increase their ownership in a company. Under Indian regulations, an acquirer already holding twenty-five percent but less than seventy-five percent of the voting rights can purchase an additional five percent per financial year. This provides flexibility for promoters to consolidate control over time without triggering the requirement for a mandatory public offer.

14. (C) Cash buyers evaluate targets with greater discipline, circumspection, and rigour.
Statistical evidence indicates that cash-financed deals often outperform those using stock. This disparity arises because cash transactions require immediate liquidity and often involve external borrowing, forcing management to perform more rigorous due diligence. Unlike stock deals, which use corporate paper, cash deals carry a higher opportunity cost and direct financial risk, leading to more disciplined selection and valuation of targets.

15. (D) Assets and obligations must be taken over at fair market values recorded on the date of the demerger.
For a demerger to be tax-neutral, it must satisfy specific conditions under the Income Tax Act. Assets and liabilities from the demerged unit must be transferred at their existing book values, not fair market values. Other requirements include proportional share issuance to existing shareholders and the transfer of at least three-quarters of the value of the demerged company's shares.

16. (A) The purchase of controlling interest in another firm's share capital.
An acquisition occurs when one organisation obtains a sufficient portion of the voting stock in another company to exert control. Unlike a merger where companies blend into a single entity, an acquisition can allow the acquired firm to continue its legal existence as a subsidiary. This process is a primary mechanism for inorganic growth and expanding market reach quickly.

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68. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
A staggered board is an effective defensive measure where only a fraction of the directors are elected each year. This structure prevents a hostile bidder from gaining immediate control of the board, even after acquiring a majority of shares. By delaying the ability to replace leadership, the target company gains time to negotiate better terms or seek alternative strategic options.

69. (A) Rs. 10 crore
In an acquisition, the cost to the acquirer is defined as the premium paid over the target firm's standalone value. In this case, the acquiring firm provides sixty crore rupees in cash for a target valued at fifty crore rupees. Therefore, the incremental financial outlay, or cost of the merger, is ten crore rupees. This represents the investment made to capture future synergies.

70. (A) Statements I, II, IV, and V are correct.
Tax laws provide specific rules for the taxation of slump sales. Profits from these transactions are classified as capital gains based on the holding period of the undertaking. While long-term and short-term gains are recognized, a critical distinction is that the benefit of indexation is explicitly disallowed for slump sales. The gain is calculated using the net worth of the transferred unit.

71. (A) Rs. 110 crore
The value of an ownership position in a business division is determined by subtracting its specific liabilities from its enterprise value. For this logistics division, the present value of future cash flows is one hundred and fifty crore rupees. After deducting the forty crore rupees in division-specific obligations, the remaining value attributable to the owners is one hundred and ten crore rupees.

72. (B) Statements I, III, and IV are correct.
Financing for international acquisitions by Indian companies often involves overseas subsidiaries and special purpose vehicles. Lenders typically provide funding based on multiples of the target's earnings, emphasizing strong cash flow for debt service. Due to the complexities and risks involved in cross-border transactions, the cost of acquisition finance is generally higher than that of standard corporate loans for domestic operations.

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73. (C) Assertion (A) is true, but Reason (R) is false.
The National Company Law Tribunal plays a vital role in overseeing corporate amalgamations. While the tribunal has the authority to modify proposed schemes to ensure they are equitable, it is not required to approve them unconditionally. Even if a seventy-five percent majority of shareholders gives their consent, the tribunal must independently verify that the scheme is fair and reasonable for all stakeholders.

74. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Utilizing overvalued stock as payment for an acquisition is a strategic financial move. By issuing shares that are trading above their intrinsic value, an acquirer can obtain the target's assets while giving up less real economic ownership than a cash payment would require. This reduces the effective cost of the transaction for the acquiring company's original shareholders, enhancing the deal's overall profitability.

75. (C) Rs. 10.00 crore
The true cost of a stock-financed acquisition is calculated by looking at the value of the combined entity owned by the target's former shareholders. Here, the target shareholders receive twenty percent of a combined firm valued at fifty crore rupees. Since their stake is worth ten crore rupees, this amount represents the total cost to the acquirer for obtaining the target company.

76. (B) Statements I, II, and IV are correct.
Takeover regulations impose specific duties on both the acquirer and the target firm to ensure fairness. Acquirers must engage registered merchant bankers and meet strict deadlines for dispatching offer letters. Meanwhile, the target board faces restrictions, such as the prohibition against appointing new directors or disposing of significant assets without shareholder approval during the offer period, to prevent defensive asset stripping.

obligations

(C) A financial model demonstrating the post-merger synergy value

(D) A strategy to decouple the financing decisions from operational integration

Oct/Nov 2014

8. Which statement accurately reflects the focus of a well-structured M&A deal?

(A) It relies entirely on short-term price bridging strategies to close transactions swiftly.

(B) It takes into account issues which may arise several years into the future and unforeseen risks.

(C) It focuses on isolating tax basis calculations while disregarding operational assimilation.

(D) It ensures that the acquiring entity avoids all managerial control over the target.

May/June 2019

9. Which of the following statements about non-cash payment options is incorrect?

(A) Sellers can postpone the payment of taxes by accepting acquirer shares as principal payment.

(B) Companies whose actual leverage is lower than their desired leverage are more likely to make acquisitions using stock rather than cash.

(C) Real estate, rights to intellectual property, and royalties are examples of non-cash sources of payment.

(D) Highly leveraged acquirers are less likely to offer agreements that consist entirely of cash.

Oct/Nov 2006

10. Under Section 72A of the Income Tax Act, the amalgamated company must achieve a production level of at least 50% of the installed capacity of the acquired industrial undertaking before the end of which period from the date of amalgamation?

(A) Two years

(B) Three years

(C) Four years

(D) Five years

May/June 2021

11. Regarding the proceeds from a public offering of listed NCDs, they can be utilized for various purposes, but they CANNOT be used to:

(A) Finance a domestic acquisition by subscribing to alternative investment funds.

(B) Meet the general working capital requirements of an acquired subsidiary.

(C) Raise funds from domestic mutual funds for corporate restructuring.

(D) Purchase the shares of any person who is a member of the same group as the issuer.

Oct/Nov 2010

12. In the context of deal financing, what is an "indenture"?

(A) A contract establishing an offshore special purpose vehicle for cross-border investments

(B) An inter-creditor agreement dictating the terms of syndicated bank loans

(C) A contract between the corporation issuing long-term debt instruments and the lenders

(D) A regulatory filing required by SEBI for the private placement of convertible bonds

May/June 2005

13. Which statement correctly describes the mechanics of a direct statutory stock merger?

(A) The acquirer and target boards reach a negotiated settlement, and only one entity is left standing after the merger.

(B) The acquirer issues convertible debentures to the target shareholders without board involvement.

(C) The target company is merged into a shell acquisition subsidiary, allowing both parent companies to continue independently.

(D) The target company's historic business assets are liquidated and sold off to non-controlling interest holders.

Oct/Nov 2022

14. What is the primary conceptual effect when the target company's tax cost in acquired assets is "stepped up" to its fair market value?

(A) The acquirer recognizes immediate non-taxable income on the consolidated balance sheet

(B) The target shareholders are exempted from paying taxes on their realized capital gains

(C) The entity incurs lower tax liability currently due to additional future depreciation

(D) The net book value of the assets is permanently locked to prevent further write-downs

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Key requirements include identifying the right targets, accurately estimating potential synergies to avoid overpaying, and carefully planning the integration process. However, it is generally considered a best practice to separate the analysis and negotiation functions among different teams to ensure objective evaluation and prevent emotional bias during the deal-making process.

87. (B) Rs. 50 crore
The total present value of a combined entity following a merger is determined by summing the standalone values of the participating firms and adding the expected synergistic benefits. For this transaction, the standalone values of forty crore and five crore rupees are combined with five crore rupees of synergy. This results in a total consolidated value of fifty crore rupees.

88. (B) Statements I, II, III, and IV are correct.
To protect minority shareholders, takeover pricing guidelines specify that the open offer price must be the highest among several benchmarks. These include the negotiated acquisition price, the volume-weighted average price of prior purchases, and market price averages over sixty trading days. These rigorous requirements prevent acquirers from offering unfairly low prices during a change in corporate control or management.

89. (B) Rs. 290 crore
Calculating the post-merger value of a combined entity involves aggregating the pre-merger standalone valuations of both the acquirer and the target company. Additionally, any anticipated synergistic benefits resulting from the combination are added to this total. In this example, adding the standalone values of two hundred and fifty crore rupees and the forty crore synergy yields a total of two hundred and ninety crore.

90. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Leveraged buyouts use high levels of debt as a tool to improve corporate performance. The mandatory requirement to make regular interest and principal payments acts as a powerful disciplining mechanism for management. This financial pressure forces the leadership team to eliminate waste and focus on maximizing operational efficiency to ensure the firm's survival and the successful repayment of the acquisition debt.

91. (B) Creeping Acquisition
A strategy where an investor or promoter gradually increases their shareholding in a company through small, periodic purchases is known as a creeping acquisition. Regulatory frameworks allow these incremental increases within specified annual limits to avoid triggering a mandatory public offer for the entire company. This allows long-term investors to consolidate their control over time without facing immediate and large-scale financial obligations.

92. (B) By summing the squares of the market shares of all companies in the sector.
The Herfindahl-Hirschman Index is a widely used measure of market concentration and competition. It is calculated by taking the market share percentage of every firm in a specific industry, squaring each of those individual values, and then summing the results. A higher index score indicates a more concentrated market with less competition, while a lower score suggests a fragmented industry.

93. (D) DP > VOP; therefore, Delta Corp should put the division up for sale.
The financial decision to divest an asset is based on a comparison between the divestiture proceeds and the value of keeping the asset. In this scenario, the potential sale price of one hundred and twenty crore rupees exceeds the division's internal ownership value of one hundred and ten crore rupees. Therefore, the company maximizes shareholder value by proceeding with the sale.

94. (C) At least 75 percent (in value) of shareholders who vote in person, by proxy, or through postal ballot.
For a scheme of amalgamation to be legally binding, it must receive significant approval from the company's shareholders. Statutory requirements generally mandate that a majority in number representing seventy-five percent in value of the shareholders present and voting must support the proposal. This high threshold ensures that major corporate restructurings have

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(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2015

37. Which payment method is most appropriate when both the buyer and the target lack vital knowledge about one another and want to alleviate mutual concerns regarding valuation?
(A) Convertible securities
(B) A one-time lump sum cash payment
(C) Subordinated debentures
(D) Immediate assumption of target liabilities

Oct/Nov 2012

38. Match the acquisition financing structure in List I with its feature in List II.
List I: (Structure)
P. FDI SPV
Q. FOCC
R. ECB
S. Domestic NCDs
List II: (Feature)
1. Obtains senior loans abroad, backs them with its asset portfolio, pledges acquirer shares.
2. A foreign-owned operating entity incorporated in India, prohibited from leveraging in the Indian market.
3. Can be utilised by Indian companies to acquire shares of an overseas joint venture.
4. Domestic financing route primarily subscribed by FPIs, mutual funds, and AIFs.
(A) P-1, Q-2, R-3, S-4
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2011

39. Consider the following statements:
I. A direct statutory cash merger is considered a tax-free transaction to the shareholders of the target company.
II. In a direct statutory stock merger, all assets and liabilities are immediately transferred to the company that is left standing.
Which of the following is correct?
(A) Both Statement I and Statement II are true
(B) Both Statement I and Statement II are false
(C) Statement I is true, but Statement II is false
(D) Statement I is false, but Statement II is true

Oct/Nov 2020

40. Match the post-closing organisation type in List I with its primary rationale in List II.
List I: (Organisation Type)
P. Corporate or divisional structure
Q. Holding company structure
R. Partnership or joint venture
S. ESOP structure
List II: (Rationale)
1. Prevents double taxation and passes through operational losses and tax credits.
2. Facilitates employee ownership transfer in privately held businesses with tax benefits.
3. Allows the greatest amount of control for immediate integration.
4. Isolates specific obligations, useful if target has large liabilities.
(A) P-3, Q-4, R-1, S-2
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2022

41. Consider the following statements regarding FOCC financing:
I. An FOCC is not permitted to use leverage in the Indian market to purchase shares.
II. An FOCC can easily obtain acquisition financing from Indian banks.
III. An FOCC can issue NCDs which are then purchased by FPIs to finance an acquisition.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

Oct/Nov 2023

42. What is the best financing route for a Foreign Owned and Controlled Company (FOCC) attempting to acquire an Indian target when Indian banks are not permitted to lend to it?
(A) Pledging the assets of the Indian target to domestic mutual funds via structured debt.
(B) Utilizing external commercial borrowings directed toward equity investments in domestic targets.
(C) Issuing Non-Convertible Debentures (NCDs) which are then purchased by Foreign Portfolio Investors (FPIs).
(D) Obtaining a direct term loan facility from the Reserve Bank of India for private sector

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CHAPTER 18
Deal Structuring and Financial Strategies

May/June 2012

1. Under Section 115JB of the Income Tax Act, Minimum Alternate Tax (MAT) is levied on a company if the income-tax payable under general provisions is less than what percentage of the company's book profits?
(A) 5%
(B) 10%
(C) 15%
(D) 20%

Oct/Nov 2009

2. Which statement is correct regarding the Reserve Bank of India (RBI) guidelines on financing?
(A) Indian banks are encouraged to finance a promoter's contribution to equity to stimulate domestic M&A.
(B) Foreign-owned and controlled companies (FOCCs) are permitted unrestricted leverage in the Indian market.
(C) A bank cannot finance the acquisition of equity shares, except in extraordinary circumstances.
(D) Domestic funds can freely lend to an offshore organisation for acquiring shares in an Indian company.

May/June 2023

3. What is the definition of "tax basis" in a business acquisition?
(A) The statutory rate applied to compute capital gains tax on the sale of target shares
(B) The accumulated net operating losses available for offset against future income
(C) The asset value used for depreciation and determining future taxable gains upon sale
(D) The minimum alternative tax levied on the book profits of the combined entity

Oct/Nov 2025

4. Which of the following statements regarding outbound acquisition finance is incorrect?
(A) An Indian acquirer can raise finances from NBFCs in India via the issuing of NCDs.
(B) External Commercial Borrowing (ECB) can be used by Indian companies for the acquisition of shares of an overseas joint venture.
(C) Indian banks are entirely prohibited from providing onshore loans to complete any outbound acquisition under all circumstances.
(D) An Indian acquirer may establish an offshore special purpose vehicle (SPV) to borrow funds from offshore lenders.

May/June 2007

5. Despite having significant cash balances, why are large acquirers typically more inclined to make stock offers rather than cash offers?
(A) To comply with regulatory limits on corporate cash distributions to public shareholders
(B) The target's preference for growth prospects or the desire for a tax-deferred transaction
(C) To immediately recognize the target's net operating losses against acquirer revenues
(D) To avoid the administrative formalities of raising debt capital from commercial lenders

Oct/Nov 2018

6. Credit-rating agencies assign a numerical value to each debt issue by taking into account a variety of factors. These factors include all of the following, EXCEPT:
(A) The consistency of a company's earnings
(B) The demographic diversity of the borrower's workforce
(C) The degree of subordination of the debt
(D) Debt as a percentage of total capital

May/June 2016

7. Which of the following best defines the concept of a deal structure?
(A) A document outlining the regulatory filings required for an acquisition
(B) An agreement between two parties specifying their respective rights and

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within a subsidiary to protect the parent company
(B) The distribution of equity shares among various institutional investors to dilute control
(C) The method of financing unplanned cash outlays during the post-merger integration period
(D) The extent to which the acquiring company takes on the liabilities of the target organisation

Oct/Nov 2024

24. Which of the following statements concerning taxable transactions is incorrect?
(A) A transaction is considered taxable if the majority of the consideration is in the form of cash or debt.
(B) In a taxable cash purchase of target assets, the target company's tax cost is stepped up to fair market value.
(C) Direct cash mergers and forward triangular mergers are regarded as taxable acquisitions of assets.
(D) Taxable stock purchases inherently result in double taxation for the shareholders of the target company.

May/June 2017

25. Which statement regarding the selection of a suitable post-closing organisation is correct?
(A) A holding company structure is optimal if the buyer intends to completely operationalize and run the target company daily.
(B) The corporate or divisional structure is frequently chosen when the acquirer plans to immediately integrate the target.
(C) Joint ventures accelerate decision-making processes and ensure speedy integration of the purchased company.
(D) A partnership eliminates all shared liabilities, leaving individual owners entirely immune to operational losses.

Oct/Nov 2005

26. How is "goodwill" defined in the financial reporting of business combinations?
(A) An intangible asset recognised in the standalone books of the target company prior to acquisition
(B) The difference between the fair market value of acquired net assets and their net book value
(C) The portion of minority interest added to the consolidated retained earnings
(D) An asset representing potential future financial gains from acquired resources not identified

May/June 2020

27. When deciding on an acquisition vehicle or post-closing organisation, all of the following elements are necessary to take into consideration, EXCEPT:
(A) The management's historical dividend payout ratios
(B) The ease with which ownership can be transferred
(C) The continuous existence of the organisation
(D) The scope of individual responsibility

Oct/Nov 2015

28. At the time of investment by a Foreign Portfolio Investor (FPI), what is the generally required minimum maturity or length for non-convertible debt obligations (NCDs)?
(A) Six months
(B) One year
(C) Three years
(D) Five years

May/June 2013

29. Which of the following statements regarding the selection of an acquisition vehicle is incorrect?
(A) A holding company structure may be preferable when the target company has large liabilities.
(B) A partnership or joint venture form can be the best option if the value of tax benefits is large and risk is high.
(C) An ESOP structure provides a complex mechanism for publicly traded companies to distribute dividends to offshore investors.
(D) The corporate structure is frequently utilised because it provides limited liability and transaction flexibility.

Oct/Nov 2021

30. Which scenario accurately demonstrates double taxation in a taxable cash purchase of target assets?
(A) The buyer pays taxes on the assumed liabilities, and the target pays taxes on the purchase price

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May/June 2018

15. Under Section 72A of the Income Tax Act, the term 'Industrial Undertaking' includes any undertaking engaged in all of the following, EXCEPT:
(A) The manufacture of computer software
(B) The business of providing telecommunication services
(C) The generation or distribution of electricity
(D) The provision of financial auditing and advisory services

Oct/Nov 2016

16. Which of the following accurately describes the term "overvaluation" in the context of an acquisition?
(A) The scenario in which the acquirer's current share price exceeds its intrinsic value
(B) The target company's assets being appraised significantly above their historical book value
(C) The excess of net liabilities assumed over the identifiable assets acquired in the deal
(D) The payment of a purchase price premium that exceeds the target's market capitalization

May/June 2014

17. Which of the following statements about tax relief to the amalgamating company under Section 47(vi) is incorrect?
(A) The exemption is contingent upon the amalgamated company being a foreign corporate entity.
(B) Capital gain arising from the transfer of assets by amalgamating companies is exempt from tax.
(C) The exemption is available only if the scheme of amalgamation satisfies the conditions of Section 2(1B).
(D) The transfer will not be regarded as a transfer for the purpose of Capital Gain.

Oct/Nov 2007

18. In the event an FDI SPV pledge is enforced, an obligatory open offer must be made for at least what percentage of the target company's voting shares to complete the acquisition?
(A) 15%
(B) 25%
(C) 26%
(D) 50%

May/June 2025

19. Which statement correctly reflects the restriction on the use of proceeds from unlisted Non-Convertible Debentures (NCDs)?
(A) Investors must deploy the entire proceeds to acquire foreign direct investment stakes.
(B) The proceeds are exempt from all RBI concentration limits regarding portfolio investments.
(C) The proceeds can only be used to fund outbound acquisitions via an offshore SPV.
(D) Investors are not permitted to use the proceeds from unlisted NCDs to purchase securities on the capital market.

Oct/Nov 2019

20. What is the fundamental impact of bondholders converting their convertible bonds into new shares at a significant discount?
(A) It results in the dilution of the earnings and ownership of the current shareholders
(B) It increases the firm's overall debt-to-equity ratio proportionally
(C) It causes an automatic upward revaluation of the target's historical business assets
(D) It triggers a mandatory open offer under SEBI regulations

May/June 2009

21. An Indian acquirer establishing an offshore special purpose vehicle (SPV) is able to borrow funds from all of the following offshore sources, EXCEPT:
(A) Offshore lenders
(B) Capital markets
(C) Foreign-owned and controlled operating companies (FOCC) incorporated in India
(D) Other financial institutions located offshore

Oct/Nov 2011

22. For what period may a taxpayer generally carry forward business losses succeeding the assessment year in which the loss was first computed?
(A) Up to four assessment years
(B) Up to five assessment years
(C) Up to eight assessment years
(D) Up to twenty assessment years

May/June 2010

23. Which of the following best explains the concept of "risk sharing" in deal structuring?
(A) The process of isolating known liabilities

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the broad consensus of the company's ownership base.

95. (A) 4000
Mergers between major market participants significantly impact industry concentration levels. Before the merger, the market concentration index was twenty-two hundred. After the two firms with thirty percent shares combine to form a single entity with a sixty percent share, the square of their new share becomes thirty-six hundred. Adding the contributions of the remaining smaller firms results in a new index of four thousand.

96. (C) 400
Market concentration indices are calculated by summing the squares of individual market shares. In this sector, four smaller companies each hold a ten percent share. Squaring the market share of each of these firms results in one hundred per company. When these individual contributions are combined, the total impact of these four smaller firms on the sector's concentration index is four hundred.

97. (A) 26 percent
Takeover regulations mandate that once an acquirer crosses a specific ownership threshold, they must provide an exit opportunity to other shareholders. Under current rules, an acquirer reaching twenty-five percent must make a public announcement for an open offer. This offer must be made to acquire at least an additional twenty-six percent of the company's total shares at a specified fair price.

98. (B) 5 percent
Promoters and major shareholders can utilize creeping acquisition rules to increase their stake without initiating a full open offer. The regulatory framework allows an acquirer holding between twenty-five and seventy-five percent of a company to purchase an additional five percent of voting rights during any single financial year. This provides a mechanism for gradual control consolidation while maintaining market stability and transparency.

99. (C) 2200
The Herfindahl-Hirschman Index measures the concentration of a market by summing the squares of the shares of all participating firms. In this market, the two largest firms contribute eighteen hundred to the index, derived from their thirty percent shares. The four smaller firms, each with ten percent, add a combined four hundred. Consequently, the total concentration index for the sector is twenty-two hundred.

100. (D) More than 5 percent
During the legal approval process for an amalgamation, creditors have the right to object to the scheme if they believe their interests are jeopardized. To ensure that only significant stakeholders can delay the process, the law requires that an objecting creditor must hold at least five percent of the company's total outstanding debt to have standing before the National Company Law Tribunal.

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(B) The acquirer pays capital gains tax on the stock purchase, and ordinary income tax on the boot
(C) Both the amalgamating company and the amalgamated company are taxed on the accumulated losses
(D) The target pays taxes on asset gains, and shareholders pay taxes on distributed proceeds

May/June 2024

31. Arrange the following steps in the correct chronological order in which the purchase price or acquisition cost is assigned and recorded according to the purchase method of accounting:
1. The purchase price or acquisition cost is calculated.
2. The remaining difference is recorded as goodwill.
3. The cost is assigned to tangible net assets.
4. The cost is assigned to intangible net assets.

(A) 1, 4, 3, 2
(B) 1, 3, 4, 2
(C) 3, 4, 1, 2
(D) 1, 2, 3, 4

Oct/Nov 2008

32. Identify the INCORRECTLY matched pair of deal structuring terms.
(A) Direct statutory cash merger — Regarded as a taxable acquisition of assets.
(B) Reverse triangular cash merger — Target company is merged into the acquirer's operating subsidiary and ceases to exist.
(C) Form 62 — Certificate furnished electronically to the AO to show particulars of production under Section 72A.
(D) Boot — Non-equity consideration in a tax-free transaction that is subject to taxation as regular income.

May/June 2006

33. What is the most appropriate primary concern for a buyer when assessing alternative tax structures during an acquisition?
(A) Ensuring the transaction is structured to postpone the payment of any taxes owed by the seller
(B) Assessing the basis of the assets they are acquiring and avoiding accountability for existing tax issues
(C) Securing the continuity of commercial enterprise to benefit the target shareholders
(D) Maximizing the amount of boot provided to the selling shareholders

Oct/Nov 2017

34. Consider the following statements regarding domestic acquisition financing in India:
I. Under general RBI guidelines, an Indian bank is fully permitted to finance a promoter's contribution to equity.
II. Financing for a domestic acquisition is typically obtained from non-banking financial companies (NBFCs) or through the issuance of NCDs.

Which of the following is correct?
(A) Both Statement I and Statement II are true
(B) Both Statement I and Statement II are false
(C) Statement I is true, but Statement II is false
(D) Statement I is false, but Statement II is true

May/June 2008

35. Match the Section of the Income Tax Act in List I with its provision in List II.
List I: (Section)
P. Section 72A
Q. Section 47(vi)
R. Section 47(vii)
S. Section 115JB
List II: (Provision)
1. Exemption from capital gains tax for amalgamating companies transferring assets.
2. Carry forward and set off of accumulated loss and unabsorbed depreciation.
3. Levies MAT on a company based on book profits.
4. Exemption from capital gains tax for shareholders transferring shares in an amalgamation.

(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

Oct/Nov 2013

36. Consider the following entities or channels:
I. Alternative Investment Funds (AIFs)
II. Foreign Portfolio Investors (FPIs)
III. Foreign Owned and Controlled Companies (FOCC) acting as domestic lenders

Which of the above combinations frequently provide funding for acquisitions in India?

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77. (D) Rs. 10 crore
The net present value of a merger for a target firm's shareholders is the difference between the compensation received and the firm's standalone value. In this transaction, Beta's shareholders are offered sixty crore rupees for a business valued at fifty crore rupees. Consequently, the shareholders realize a net gain of ten crore rupees from the sale of their interest to Firm Alpha.

78. (A) Statements I, II, III, and IV are correct.
Evaluating a potential sell-off involves a systematic financial analysis. Management must estimate the division's after-tax cash flows and determine a discount rate that reflects its specific risk profile. These inputs are used to calculate the present value of the unit. The decision to sell is typically made only when the proceeds from the divestiture exceed the calculated value of ownership.

79. (D) Assertion (A) is false, but Reason (R) is true.
A reduction in the cost of debt following a merger does not automatically benefit equity shareholders. In efficient markets, the lower interest rate reflects a reduction in risk for creditors, often because the combined firm's assets provide better security. However, this benefit is typically offset by the implicit guarantee provided by the shareholders, leaving the overall value of the equity unchanged.

80. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Reverse mergers serve as an alternative route for private companies to access public capital markets. By acquiring a larger listed entity, the smaller unlisted firm essentially takes over the public listing. This strategy is primarily driven by the desire to bypass the complex, expensive, and lengthy regulatory requirements and market uncertainties associated with conducting a traditional initial public offering.

81. (C) Present value of cash flows minus division-specific liabilities.
Determining the value of the ownership position in a specific business division requires isolating its financial components. It is calculated by taking the present value of all anticipated future cash flows generated by that division and subtracting its specific liabilities. This result represents the net equity value of the unit, which is essential for comparing internal value against potential offers from outside buyers.

82. (B) Statements I, II, IV, and V are correct.
Divestments can be structured in several ways to achieve corporate goals. While sell-offs and carve-outs raise cash, spin-offs maintain shareholder continuity without immediate liquidity. Demergers are also useful for resolving family succession issues. However, the definition of a split-up is specific: it involves dividing the entire company into new entities and results in the legal dissolution of the original parent firm.

83. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Corporate diversification through mergers is often seen as redundant for shareholders. Investors have the ability to diversify their own portfolios by purchasing shares across different industries at a lower cost and with greater flexibility. Since shareholders can achieve risk reduction on their own, they generally do not award a valuation premium to companies that engage in mergers solely for diversification purposes.

84. (C) Rs. 10 crore
The net present value of a merger to the acquiring firm is the total synergistic gain minus the cost of the acquisition. In this scenario, the synergy is valued at twenty crore rupees. The cost is the ten crore rupee premium paid over the target's standalone value of fifty crore rupees. Therefore, the acquirer realizes a net gain of ten crore rupees.

85. (D) Assertion (A) is false, but Reason (R) is true.
Divestitures are fundamentally driven by the principle of anergy rather than synergy. Anergy occurs when a company's conglomerate structure actually destroys value, meaning the individual parts would be worth more as separate entities. In such cases, selling off a division allows the parent company to unlock this trapped value for its shareholders, improving overall corporate efficiency and market valuation.

86. (B) Statements I, II, and IV are correct.
Successful corporate acquisition programmes require disciplined execution and strategic focus.

NODIA

use.

May/June 2012

43. Identify the correctly matched pair regarding tax reliefs in amalgamations under the Income Tax Act.
(A) Section 47(vi) — Exemption from capital gains tax on the transfer of shares by the shareholders of the amalgamating company.
(B) Section 72A — Carry forward and set off of accumulated loss and unabsorbed depreciation of the amalgamating company.
(C) Section 115JAA — Express provision explicitly granting the amalgamated company the right to claim the MAT credit of the amalgamating company.
(D) Section 49(2) — Imposition of double taxation on the distribution of dividends post-liquidation.

Oct/Nov 2009

44. Match the category of Industrial Undertaking under Section 72A in List I with its description in List II.
List I: (Category)
P. Manufacture of computer software
Q. Business of generation of electricity
R. Construction of ships
S. Telecommunication services
List II: (Description)
1. Includes radio paging, broadband network, and internet services.
2. Engaging in producing non-tangible computing codes/programs.
3. Engaging in building vessels for maritime operations.
4. Engaging in producing or distributing power.
(A) P-2, Q-4, R-3, S-1
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2023

45. Consider the following conditions:
I. Hold continuously at least three-fourths of the book value of fixed assets for five years.
II. Continue the business of the amalgamating company for a minimum period of five years.
III. Achieve a production level of at least 50% of installed capacity before the end of two years.
Which of the above conditions must an amalgamated company satisfy to avail benefits under Section 72A of the Income Tax Act?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2018

46. Under which scenario is a partnership or joint venture form considered the most appropriate post-closing organisation?
(A) When the acquirer plans to immediately integrate the target and desires maximum control
(B) When the value of the tax benefits is large, the risk is high, and participants want to pass on operational losses and tax credits
(C) When the parent intends to isolate specific obligations to push the subsidiary into bankruptcy later
(D) When the acquirer is a financial investor with no intention of running the target company

May/June 2007

47. Consider the following statements:
I. Merging companies with cash flows that are relatively uncorrelated with one another have a tendency to decrease their leverage after the completion of the deal.
II. Since the late 1970s, there has been a significant rise in the proportion of businesses operating with little to no leverage in the United States.
Which of the following is correct?
(A) Both Statement I and Statement II are true
(B) Both Statement I and Statement II are false
(C) Statement I is true, but Statement II is false
(D) Statement I is false, but Statement II is true

Oct/Nov 2025

48. Match the type of merger in List I with its corresponding description in List II.
List I: (Merger Type)
P. Direct statutory cash merger
Q. Forward triangular cash merger
R. Reverse triangular cash merger
S. Direct statutory stock merger
List II: (Description)
1. Target is merged into acquirer's subsidiary,

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the cost of equity for disparate industries.
(D) An ESOP structure eliminates the need for senior debt.

May/June 2023

92. Investor Z holds a large block of shares in Amalgamating Co. Under a scheme of amalgamation, Investor Z transfers these shares entirely in consideration for an allotment of shares in the new Indian Amalgamated Co. The tax authorities issue a notice demanding capital gains tax on the transfer. Based on Section 47(vii) of the Income Tax Act, how should Investor Z respond?
(A) Pay the tax immediately as all share transfers in amalgamations are taxable events.
(B) Pay the tax but claim a full refund under the step-transaction theory in the next assessment year.
(C) Dispute the notice because the transaction is not regarded as a transfer for capital gains purposes under Section 47(vii).
(D) Request to convert the tax liability into subordinated debentures.

Oct/Nov 2007

93. A mid-sized acquirer issues convertible bonds to finance the cash component of its bid for a target. Three years later, the target's performance exceeds expectations, and the acquirer's stock price soars. The bondholders exercise their right to convert the bonds into common stock at a steep discount. What is the primary negative consequence for the acquirer's original shareholders?
(A) They will be subjected to immediate capital gains taxes.
(B) The acquirer's credit rating will be instantly downgraded to junk status.
(C) The acquirer must immediately liquidate the target to pay the bondholders.
(D) They will face a dilution of their earnings per share and ownership percentage.

May/June 2012

94. Amalgamated Co has acquired an industrial undertaking (manufacturing goods) from an amalgamating company under Section 72A. Amalgamated Co is currently in its third year post-amalgamation and has just achieved a production level of 60% of the installed capacity. To ensure it continues to receive the benefit of carrying forward accumulated losses, what compliance step must Amalgamated Co take when filing its return of income?
(A) Submit an inter-creditor agreement to SEBI
(B) Issue a non-disposal undertaking to its shareholders
(C) Electronically furnish a certificate in Form 62 duly verified by an accountant
(D) Surrender its MAT credit to the tax authorities

Oct/Nov 2024

95. A US corporation is acquiring an Indian target and making substantial payments to a seller holding entity based in Mauritius. The buyer wants to determine whether a tax withholding duty exists and hopes to avoid overlapping tax claims. Which legal framework will most directly resolve the buyer's cross-border double taxation concerns?
(A) The bilateral Double Taxation Avoidance Agreement (DTAA) between India and Mauritius
(B) The Insolvency and Bankruptcy Code (IBC) guidelines for cross-border asset liquidation
(C) The SEBI Foreign Portfolio Investors Regulations for offshore institutional investments
(D) The Loan Market Association (LMA) standard credit agreement for international syndicates

May/June 2019

96. Pioneer Ltd amalgamates with Frontier Ltd. Before the amalgamation, Frontier Ltd had substantial excess Minimum Alternate Tax (MAT) credit. Pioneer Ltd attempts to carry forward and set off Frontier's MAT credit against its own future normal tax liabilities under Section 115JAA. How will the tax authorities treat this claim?
(A) They will approve it, as Section 115JAA explicitly mandates the transfer of MAT credit during an amalgamation.
(B) They will deny it, as there is no express provision in Section 115JAA allowing the carry-forward of MAT credit.
(C) They will approve it only if the entity is a foreign-owned holding company with specific tax exemptions.
(D) They will deny it because MAT credit strictly converts to an unabsorbed depreciation

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3. A doctrine requiring continuity of interests and business enterprise for tax exemptions.
4. Produced when a company has negative taxable income, can be carried forward or backward.

(A) P-2, Q-3, R-1, S-4
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

Oct/Nov 2010

54. Consider the following statements regarding the financial reporting of business combinations:

I. Under Ind-AS, investments are typically recorded at fair value unless the buyer opts to record investments in subsidiaries at cost.
II. In a share acquisition where control is not obtained, intangible assets are heavily recognised in the standalone books of the target company.

Which of the following is correct?
(A) Both Statement I and Statement II are true
(B) Both Statement I and Statement II are false
(C) Statement I is true, but Statement II is false
(D) Statement I is false, but Statement II is true

May/June 2005

55. Identify the correctly matched pair concerning payment considerations and their typical use cases.
(A) Mixed Cash and Stock — Providing target shareholders options, particularly when they need cash for tax liabilities but desire future appreciation.
(B) Cash consideration — Acquirer anticipates integration will take a significant period of time and wishes to conserve debt capacity.
(C) Stock consideration — Target company is extremely undervalued and acquirer's shareholders fear severe dilution.
(D) Convertible Securities — Both parties possess complete, perfect information and are fully confident in the target's precise valuation.

Oct/Nov 2022

56. What is the best legal provision an acquirer should incorporate to solve the uncertainty of the total cash payout in a multiple-option bidding strategy?
(A) A proration clause
(B) A non-disposal undertaking
(C) An inter-creditor agreement
(D) An earn-out arrangement

May/June 2018

57. Consider the following statements:

I. Continuity of ownership interests
II. Continuity of business enterprise
III. Immediate liquidation of the target's historic business assets

Which of the above combination of requirements must be fulfilled for a transaction to be exempt from paying taxes under the step-transaction theory?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2016

58. Match the payment consideration in List I with the situation where it is favored in List II.
List I: (Payment Consideration)
P. Cash
Q. Non-cash (Stock)
R. Mix of Cash and Stock
S. Convertible Securities
List II: (Situation)
1. Target shareholders need funds for taxes, but want future share appreciation.
2. Acquirer and target lack vital knowledge about one another, offering a debt floor with upside.
3. Target has considerable borrowing capacity, high credit rating, and cheap shares.
4. Acquirer has limited borrowing capacity, target is overvalued, integration will take time.

(A) P-3, Q-4, R-1, S-2
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2014

59. Consider the following statements:

I. The process of deal structuring entails establishing how risk will be distributed, referred to as risk sharing.
II. Containing the risk involved with a complicated transaction is comparable to squeezing a water balloon, where the risk merely migrates to another location.

Which of the following is correct?

funds from European capital markets to fund the acquisition. Which financing structure does this scenario best illustrate?
(A) Inbound Acquisition Finance via FOCC
(B) Domestic Acquisition Finance via NCDs
(C) Outbound Acquisition Finance from Offshore Sources
(D) Onshore financing through Indian domestic mutual funds

Oct/Nov 2020

82. Consider the following reasons:
I. The target company is deemed to be overvalued.
II. The acquirer has limited borrowing capacity.
III. The integration of the target company is anticipated to take a significant period of time.
IV. The target has intangible assets that are difficult to value.
V. The target company demands to trigger immediate double taxation for its shareholders.
Which of the above are reasons an acquirer might prefer to use non-cash (stock) payments instead of cash?
(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, IV, and V only

May/June 2022

83. The following questions consist of two statements — Assertion (A) and Reason (R). Answer these questions selecting the appropriate option given below:
Assertion (A): The process of containing the risk involved with a complicated transaction is comparable to squeezing one end of a water balloon.
Reason (R): Choices made to reduce risk in one part of the transaction frequently cause the risk to migrate to other parts of the contract.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2023

84. Apex Manufacturing purchases substantially all of the historic business assets of Base Ltd for cash. Following the sale, Base Ltd pays the required corporate taxes on the recognized gain. Because Base Ltd has ceased operations, it liquidates and distributes the remaining sale proceeds to its shareholders as a dividend. What tax consequence will the shareholders of Base Ltd face based on this scenario?
(A) They will be entirely exempt from taxes due to the continuity of business enterprise.
(B) They will benefit from an immediate step-up in the tax basis of their original shares.
(C) They will be subject to a secondary layer of taxation, resulting in double taxation.
(D) They will be allowed to carry forward Base Ltd's net operating losses to their personal returns.

Oct/Nov 2025

85. The following questions consist of two statements — Assertion (A) and Reason (R). Answer these questions selecting the appropriate option given below:
Assertion (A): In a taxable cash purchase of target assets, the target company's tax cost in the acquired assets is stepped up to its fair market value.
Reason (R): The target company recognises an immediate gain or loss based on the difference between the asset's fair market value and its net book value.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2021

86. Consider the following features:
I. They can be converted into shares of stock at a predefined ratio.
II. They typically offer a coupon rate that is exceptionally high compared to standard debt.
III. Conversion results in diluting the earnings of current shareholders.
IV. They are utilized when both the buyer

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(A) Continuity of ownership interests
(B) Proration clause deployment
(C) Continuity of commercial enterprise
(D) Establishment of a holding company

May/June 2010

65. The following questions consist of two statements — Assertion (A) and Reason (R). Answer these questions selecting the appropriate option given below:
Assertion (A): Shareholders of the target company may be subject to double taxation in a taxable cash purchase of target assets.
Reason (R): Tax is paid first when the target firm realises gains on the asset sale, and again when the sale proceeds are distributed as dividends during liquidation.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

66. Global Enterprises purchases a 60% stake in Local Tech, gaining effective control. When Global prepares its consolidated financial statements under IND AS 103, it records 100% of Local Tech's assets and liabilities at fair value. To balance the consolidated equity and reflect the portion of Local Tech that Global did not purchase, what must Global record?
(A) A 40% non-controlling (minority) interest shown separately from the parent's equity
(B) A deferred tax asset equal to 40% of the purchase price
(C) An immediate gain from a bargain purchase on the income statement
(D) A liability reflecting the 40% debt obligation of the subsidiary

May/June 2017

67. Consider the following factors:
I. The target company has considerable borrowing capacity.
II. The target company has a high credit rating.
III. The acquirer wishes to preserve control of the company after the acquisition.
IV. The target company demands the right to immediately dilute the bidder's existing dominant shareholder.
Which of the above factors makes an acquirer more likely to use cash as a form of payment?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

Oct/Nov 2005

68. The following questions consist of two statements — Assertion (A) and Reason (R). Answer these questions selecting the appropriate option given below:
Assertion (A): An acquirer is highly likely to make an all-cash offer if its share price is considered to be heavily overvalued.
Reason (R): Overvalued stock acts as an inexpensive currency, making it the most preferred method of payment to reduce the total debt necessary for the takeover.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2020

69. Zenith Inc's stock is currently trading at historical highs, driven by market enthusiasm rather than intrinsic value. The management believes the stock is overvalued. Zenith aims to acquire a tech startup that possesses early-stage intangible assets that are extremely difficult to value. To protect its downside and leverage its expensive currency, which payment method is most optimal for Zenith?
(A) Acquirer's stock
(B) A lump sum cash payment funded by new bank loans
(C) Subordinated unsecured debentures
(D) Short-term commercial paper

Oct/Nov 2015

70. Consider the following variables:
I. State of the capital markets
II. Liquidity and creditworthiness of the target and acquiring companies
III. Combined borrowing capacity of the target

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(A) Both Statement I and Statement II are true
(B) Both Statement I and Statement II are false
(C) Statement I is true, but Statement II is false
(D) Statement I is false, but Statement II is true

Oct/Nov 2007

60. Match the financial reporting concept in List I with its implication in List II.
List I: (Financial Concept)
P. Acquisition method
Q. Non-controlling interest
R. Goodwill
S. Ind-AS vs I-GAAP difference
List II: (Implication)
1. Component of the target that was not bought, shown separately from parent's equity.
2. Represents potential future financial gains from acquired assets not specifically recognised.
3. Under one, investments are recorded at cost; under the other, recorded at fair value.
4. Requires calculating purchase price, allocating to net assets, and recording the rest on books.

(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2025

61. Consider the following conditions:
I. Must be an Indian Company.
II. Hold continuously at least three-fourths of the book value of fixed assets for five years.
III. Continue the business of the amalgamating company for a minimum of five years.
IV. Achieve production level of at least 50% of installed capacity before four years.
V. Electronically furnish a certificate in Form 62 to the AO.

To avail the carry forward of accumulated losses under Section 72A, which of the above conditions must the amalgamated company fulfill?
(A) I, II, and III only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2019

62. The following questions consist of two statements — Assertion (A) and Reason (R). Answer these questions selecting the appropriate option given below:
Assertion (A): An FOCC is unable to obtain acquisition financing directly from Indian banks to acquire an Indian target.
Reason (R): FOCCs are not permitted to use leverage in the Indian market for the acquisition of shares.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2009

63. Consider the following rules regarding capital gains taxes and MAT credit during corporate restructuring:
I. Section 115JB levies MAT if income-tax payable under general provisions is less than 15% of book profits.
II. Excess MAT paid over normal tax liability is permitted to be carried forward under Section 115JAA.
III. There is a clear express provision allowing an amalgamated company to claim the MAT credit of the amalgamating company.
IV. Capital gains tax is assessed at the time when the consideration is physically received, not when the right to receive accrues.

Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I, II, and IV only
(D) III and IV only

Oct/Nov 2011

64. Alpha Corp acquires Beta Ltd primarily using Alpha's voting stock. Alpha intends to claim this as a tax-free transaction. However, immediately after closing, Alpha sells off all of Beta's manufacturing plants (its historic business assets) and pivots Beta into a completely unrelated software business. The tax authorities reclassify the deal as taxable. Which requirement of the step-transaction theory did Alpha violate?

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what legal provision should the acquirer include in the merger agreement?
(A) A non-disposal undertaking
(B) An indenture covenant
(C) An earn-out contingency
(D) A proration clause

Oct/Nov 2017

76. Consider the following transactions:
I. A cash purchase of target assets
II. A statutory cash merger
III. A cash purchase of target shares
IV. A direct statutory stock merger where stock is the sole consideration
Which of the above transactions is subject to taxation to the shareholders of the target company?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, and IV only

May/June 2008

77. Buyer Co is negotiating to acquire Target Co. Buyer Co wants the acquired assets' tax basis to be "stepped up" to fair market value so it can claim significantly higher depreciation expenses in subsequent years. To achieve this specific tax outcome, how must Buyer Co structure the deal?
(A) As a tax-free direct statutory stock merger
(B) As an acquisition exclusively using convertible securities
(C) As a joint venture partnership maintaining historic book values
(D) As a taxable cash purchase of target assets

Oct/Nov 2013

78. Consider the following principles under IND AS 103:
I. An entity shall apply the acquisition method for each business combination.
II. The acquirer and the acquisition date must be identified and determined.
III. Identifiable assets acquired and liabilities assumed are recognised and measured.
IV. 100% of the assets bought and liabilities assumed are recorded, even if less than 100% of the target is bought.
V. Goodwill cannot be recognised under any circumstances.
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, IV, and V only

May/June 2015

79. The following questions consist of two statements — Assertion (A) and Reason (R). Answer these questions selecting the appropriate option given below:
Assertion (A): Any enforcement of the pledge on the shares of an FDI SPV may trigger a mandatory open-offer requirement under SEBI Regulations.
Reason (R): The enforcement might result in the lender acquiring 25% or more shares or voting rights in the listed Indian target, triggering the Takeover Regulations.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2012

80. The following questions consist of two statements — Assertion (A) and Reason (R). Answer these questions selecting the appropriate option given below:
Assertion (A): Direct statutory cash mergers are regarded as taxable acquisitions of assets.
Reason (R): The transaction involves the majority of the consideration being in the form of cash rather than equity, preventing it from qualifying as a tax-free reorganization.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2011

81. India-based Titan Ltd wishes to acquire a German manufacturing firm. To bypass certain domestic constraints and efficiently channel funds, Titan establishes a special purpose vehicle (SPV) in Singapore. This SPV then borrows

NODIA

and acquiring companies
IV. Size of the transaction
V. Target shareholders' preference for cash or acquirer shares

Which of the above variables influences the choice of a financing source in M&A deals?
(A) I, II, and III only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

May/June 2013

71. A Foreign Owned and Controlled Company (FOCC) incorporated in India wishes to acquire an Indian target. Because RBI rules prevent FOCCs from leveraging the Indian market via traditional bank loans, the FOCC must secure alternative funding. Which of the following is the standard permissible route for the FOCC to raise debt capital for this acquisition?
(A) Issuing Non-Convertible Debentures (NCDs) which are primarily purchased by Foreign Portfolio Investors (FPIs)
(B) Utilizing external commercial borrowings directed toward equity investments in domestic targets.
(C) Securing an overdraft facility from the State Bank of India to meet the target's working capital needs
(D) Issuing a public offering of listed NCDs to retail domestic investors to bridge the valuation gap

Oct/Nov 2021

72. Consider the following constraints:
I. It obtains senior loans from financial institutions located in other countries.
II. Loans are backed by the whole FDI SPV's asset portfolio.
III. Indian exchange control laws completely encourage pledging Indian target shares to foreign lenders without restriction.
IV. Enforcement of a pledge on the FDI SPV shares may trigger a mandatory open-offer under SEBI regulations.

Which of the above constraints applies to an FDI SPV financing an inbound acquisition?
(A) I, II, and IV only
(B) II, III, and IV only
(C) I, II, and III only
(D) I, III, and IV only

May/June 2024

73. The following questions consist of two statements — Assertion (A) and Reason (R). Answer these questions selecting the appropriate option given below:

Assertion (A): Upon amalgamation, the amalgamated company cannot automatically carry forward the MAT credit of the amalgamating company.

Reason (R): There is no express provision in Section 115JAA of the Income Tax Act that allows an amalgamated company to claim the MAT credit of the amalgamating company.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2008

74. The following questions consist of two statements — Assertion (A) and Reason (R). Answer these questions selecting the appropriate option given below:

Assertion (A): Multiple-option bidding strategies generate certainty because it is possible to perfectly predict the total amount of cash the acquirer will ultimately pay.

Reason (R): Acquirers incorporate a proration clause in merger agreements to determine the total amount of cash required at the time the tender offer starts.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2006

75. An acquirer decides to launch a tender offer giving target shareholders the choice between an all-cash option or a cash-and-stock option. Because the acquirer cannot predict how many shareholders will choose the cash option, it faces severe financing uncertainty. To eliminate this uncertainty and cap the total cash payout,

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and target lack vital knowledge about one another.

Which of the above features correctly describes convertible bonds?

(A) I, III, and IV only
(B) II, III, and IV only
(C) I, II, and III only
(D) I, II, III, and IV

Oct/Nov 2014

87. Stellar Pharma (a healthy company) amalgamates with Sickle Meds (a company owning an industrial undertaking with massive accumulated losses). Stellar plans to carry forward Sickle's losses under Section 72A. However, in year three, Stellar sells off 50% of the book value of the fixed assets it acquired from Sickle. What will be the immediate tax consequence for Stellar Pharma?

(A) The accumulated losses will be permanently forgiven with no tax impact for the acquirer.
(B) The losses previously set off are treated as income of the entity for the year the failure occurred.
(C) Stellar Pharma will be forced into an automatic demerger under existing RBI national guidelines.
(D) Sickle Meds will retroactively face double taxation on its past operations and dividend payouts.

May/June 2009

88. Consider the following features:

I. FOCCs are permitted to freely use leverage from Indian banks to purchase shares.
II. The debt needed to finance the acquisition can be issued by the FOCC in the form of NCDs.
III. The issued NCDs are primarily purchased by Foreign Portfolio Investors (FPIs).
IV. NCDs are organised as senior debt.
V. NCDs are secured by all assets owned by the FOCC and a pledge on the target's shares.

Which of the above features defines an inbound acquisition financed by an FOCC?

(A) II, III, IV, and V only
(B) I, III, IV, and V only
(C) I, II, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2022

89. Horizon Corp is seeking to acquire a target firm that currently faces massive, unquantified environmental litigation liabilities. Horizon's board insists that these liabilities must remain strictly isolated so that, if they materialize, Horizon can push the acquired entity into bankruptcy without jeopardizing the parent company. Which post-closing organisation structure should Horizon Corp adopt?

(A) Corporate or divisional structure
(B) Holding company structure
(C) Joint venture structure
(D) Partnership or LLP structure

May/June 2016

90. The following questions consist of two statements — Assertion (A) and Reason (R). Answer these questions selecting the appropriate option given below:

Assertion (A): Under current accounting standards, if Firm A purchases 50.1% of Firm B, Firm A must record 100% of the assets and liabilities of Firm B.

Reason (R): The standard recognises that Firm A is in charge of managing all the acquired assets and sees the 49.9% non-controlling stake as merely another type of stock.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2011

91. Two companies operating in completely different industries decide to merge. Following the merger, their combined total cash flows demonstrate extreme stability because their historical cash flows were highly uncorrelated. Due to this newfound stability, the management decides to significantly increase the debt load of the merged entity. What principle does this action demonstrate?

(A) The proration effect of multiple-option bidding
(B) Stable uncorrelated cash flows increase the firm's overall capacity for leverage.
(C) Subordinated debentures inherently reduce

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and the subsidiary continues to exist.
2. Acquirer and target reach a settlement, form of payment is cash, both require shareholder approval.
3. Form of payment is stock, either target merges into acquirer or vice versa, leaving only one standing.
4. Acquirer's subsidiary is merged into the target company, with the target continuing to exist.

(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2016

49. Identify the INCORRECTLY matched pair regarding cross-border acquisition classifications.
(A) FOCC — An Indian domestic mutual fund explicitly designed to lend rupees to foreign acquirers.
(B) Inbound acquisition — International acquirer purchases the shares of an Indian target.
(C) Outbound acquisition — Indian acquirer acquires a company incorporated outside India.
(D) Offshore SPV — Vehicle established outside India by an Indian acquirer for outbound direct investments.

Oct/Nov 2014

50. Match the financing terminology in List I with its characteristic in List II.
List I: (Financing Term)
P. Senior debt
Q. Subordinated debentures
R. Convertible bonds
S. Proration clause
List II: (Characteristic)
1. Unsecured debt typically ranked lower than bank loans.
2. Has a greater priority claim on earnings and assets during liquidation.
3. Enables acquirers to determine upfront the total cash payout in mixed offers.
4. Can be exchanged for stock at a predefined ratio, often with a low coupon rate.

(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2019

51. Consider the following statements regarding the LMA standard loans:
I. They are typically based on forms published by the Loan Market Association or Asia Pacific Loan Market Association.
II. They are utilized when the financing is in a foreign currency and obtained from foreign lenders.
III. They serve as the universally acknowledged statutory market standard for acquisition finance conducted purely in Indian rupees by NBFCs.

Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2006

52. Arrange the following steps in the correct chronological sequence for applying the acquisition method according to the IND AS 103 Business Combination standard:
1. Recognising and measuring goodwill or a gain from a bargain purchase
2. Determining the acquisition date
3. Identifying the acquirer
4. Recognising and measuring the identifiable assets acquired, liabilities assumed, and non-controlling interest

(A) 3, 2, 4, 1
(B) 2, 3, 1, 4
(C) 3, 4, 2, 1
(D) 4, 2, 3, 1

May/June 2021

53. Match the tax concept in List I with its corresponding meaning in List II.
List I: (Tax Concept)
P. Boot
Q. Net Operating Loss (NOL)
R. Tax basis
S. Step-transaction theory
List II: (Meaning)
1. Non-equity consideration in a mostly tax-free transaction, taxed as regular income.
2. The level at which an asset can be depreciated, determining future taxable gains.

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asset upon the final merger.

Oct/Nov 2018

97. An Indian business seeks to acquire a purely domestic equity target. To fund the deal, the business bypasses local NBFCs and instead borrows a large sum in foreign currency from an offshore lender in the form of External Commercial Borrowings (ECB). According to RBI financing guidelines, what is the critical flaw in this strategy?

(A) ECB funding cannot be put toward equity investments within the country.

(B) ECB funding must be routed exclusively through a Foreign Portfolio Investor.

(C) The business must issue convertible bonds rather than taking a direct loan.

(D) The business is required to pledge 100% of its assets to the Reserve Bank of India first.

May/June 2005

98. An Indian NBFC is issuing NCDs to finance the domestic acquisition of a competing firm. The NCDs are to be traded on a major stock exchange. To legally distribute these NCDs, the NBFC must ensure that the debenture trust deeds and information memorandum comply with which specific regulatory frameworks?

(A) The step-transaction doctrine and IND AS 103 standards

(B) The Companies Act of 2013 and applicable SEBI regulations

(C) The Foreign Exchange Management Act (FEMA) offshore guidelines

(D) The Insolvency and Bankruptcy Code (IBC) alone

Oct/Nov 2009

99. A foreign acquirer creates an FDI SPV to buy a 30% stake in a listed Indian company. The FDI SPV funds the purchase via senior loans from an overseas bank, secured by pledging the acquirer's shares in the SPV. If the SPV defaults and the overseas lender enforces the pledge, thereby gaining indirect control of the 30% stake in the listed Indian company, what regulatory consequence is triggered?

(A) An immediate suspension of the target company's stock exchange listing for non-compliance.

(B) A retroactive cancellation of the FDI SPV's original incorporation and its related asset transfers.

(C) The lender is barred from exercising voting rights indefinitely under Reserve Bank of India rules.

(D) A mandatory open-offer requirement under the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations.

May/June 2020

100. Target Company shareholders agree to a transaction where the primary payment is the acquirer's stock, making the deal largely exempt from taxation. However, to sweeten the deal, the acquirer also includes a small cash payout per share (non-equity consideration) to the target shareholders. How is this cash payout treated by the tax authorities?

(A) It is completely tax-free under the continuity of ownership interests doctrine.

(B) It is stepped-up to fair market value and deferred until the target liquidates.

(C) It is treated as an unabsorbed depreciation asset for the combined entity.

(D) It is considered "boot" and is subject to the same taxation as regular income.

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69. (A) Acquirer's stock
For Zenith Inc, whose stock is trading at historical highs, using its own overvalued shares is the most strategic payment method. This allows the company to leverage its expensive currency to acquire a startup with difficult-to-value intangible assets. This approach preserves cash and reduces the overall economic risk of the acquisition by sharing potential volatility with the sellers during the integration process.

70. (D) I, II, III, IV, and V
Choosing a financing source for an M&A transaction requires evaluating multiple variables. These include the current state of capital markets, the liquidity of both firms, and their combined borrowing capacity. Additionally, the overall size of the transaction and the preferences of the target shareholders for cash or equity significantly influence whether the deal is funded through debt, internal reserves, or shares.

71. (A) Issuing Non-Convertible Debentures (NCDs) which are primarily purchased by Foreign Portfolio Investors (FPIs)
Foreign Owned and Controlled Companies operating in India utilize the issuance of Non-Convertible Debentures to bypass restrictions on traditional bank borrowing. These NCDs are primarily subscribed to by Foreign Portfolio Investors, providing a permissible route to raise debt capital. This structured financing mechanism allows FOCCs to fund domestic acquisitions while complying with strict leverage rules established by the Reserve Bank.

72. (A) I, II, and IV only
Financing an inbound acquisition through an FDI special purpose vehicle involves several constraints. These include obtaining senior loans from international institutions and backing them with the SPV's asset portfolio. Crucially, any enforcement of a pledge on these shares can trigger a mandatory open-offer requirement under SEBI regulations if it leads to a significant acquisition of voting rights in the Indian target.

73. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
In an amalgamation, the resulting company cannot automatically carry forward the Minimum Alternate Tax credit of the original firm. This is because the Income Tax Act, specifically Section 115JAA, does not contain an express provision that permits this transfer. Consequently, without a clear statutory mandate, tax authorities generally deny claims for the carry-forward of MAT credits during corporate restructurings.

74. (D) Assertion (A) is false, but Reason (R) is true.
Multiple-option bidding strategies do not inherently generate financial certainty because the acquirer cannot predict which options shareholders will choose. To address this, acquirers incorporate proration clauses in their merger agreements. These clauses allow the company to set a maximum cash limit and determine the final payout structure at the start of the tender offer, thereby capping their total financial exposure.

75. (D) A proration clause
To eliminate financing uncertainty in a tender offer with multiple payment options, an acquirer should utilize a proration clause. This legal provision allows the firm to cap the total amount of cash paid out by stipulating that if shareholders over-subscribe to the cash option, they will receive a proportional mix of cash and stock instead. This ensures the acquirer stays within budget.

76. (A) I, II, and III only
Transactions involving cash consideration, such as asset purchases, statutory cash mergers, and cash purchases of shares, are generally subject to immediate taxation for the target shareholders. These events trigger capital gains or ordinary income liabilities. In contrast, a direct statutory stock merger where equity is the sole consideration often qualifies for tax-deferred status, allowing shareholders to postpone their tax obligations.

77. (D) As a taxable cash purchase of target assets
To achieve a stepped up tax basis for acquired assets, a buyer must structure the deal as a taxable cash purchase of assets. In this scenario, the assets are recorded at their fair market value rather than their historical book value. This revaluation allows the acquirer to claim significantly higher depreciation expenses, creating a valuable tax shield that reduces future taxable income.

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integration, and the legal continuity of the enterprise. By preparing for future contingencies, the parties can mitigate disputes and protect the overall value created through the strategic business combination.

9. (B) Companies whose actual leverage is lower than their desired leverage are more likely to make acquisitions using stock rather than cash.
Payment methods in acquisitions are influenced by the acquirer's capital structure and market valuation. Companies with significant borrowing capacity and undervalued shares are generally more inclined to utilize cash rather than diluting equity. Conversely, highly leveraged firms or those with overvalued stock frequently use equity as a primary currency to preserve cash and take advantage of market conditions.

10. (C) Four years
Section 72A of the Income Tax Act outlines specific requirements for an amalgamated company to benefit from the carry-forward of accumulated losses. One essential condition is that the company must achieve a production level of at least fifty percent of the installed capacity. This target must be met before the end of five years from the amalgamation date.

11. (D) Purchase the shares of any person who is a member of the same group as the issuer.
Regulations governing the issuance of listed Non-Convertible Debentures impose strict restrictions on the utilization of raised capital. Specifically, companies are prohibited from using these proceeds to purchase shares from any individual or entity belonging to the same corporate group as the issuer. This rule prevents circular financing and ensures that funds are directed toward genuine business expansion.

12. (C) A contract between the corporation issuing long-term debt instruments and the lenders
An indenture serves as the formal legal contract between a corporation issuing long-term debt instruments and its lenders or bondholders. It meticulously defines the terms of the debt, including interest rates, maturity dates, and restrictive covenants. This document protects the interests of the creditors by establishing clear parameters for the issuer's financial behavior and debt service obligations.

13. (A) The acquirer and target boards reach a negotiated settlement, and only one entity is left standing after the merger.
In a direct statutory stock merger, the boards of the acquiring and target companies negotiate an agreement where shares are the primary consideration. Upon completion, one of the two entities ceases to exist as its assets and liabilities are absorbed by the survivor. This legal process results in a single integrated organization, streamlining operations under a unified corporate identity.

14. (C) The entity incurs lower tax liability currently due to additional future depreciation
When the tax basis of acquired assets is stepped up to fair market value, the acquiring entity can claim higher depreciation expenses in future periods. These increased non-cash charges reduce the company's taxable income, thereby lowering its current tax liability. This strategy enhances the post-acquisition cash flow by providing a significant fiscal shield based on the revalued assets.

15. (D) The provision of financial auditing and advisory services
The definition of an industrial undertaking under Section 72A of the Income Tax Act covers sectors like software manufacturing, telecommunications, and power generation. These industries are recognized for their role in infrastructure and production. Professional services, such as financial auditing and advisory work, do not fall under this specific classification for the purpose of carrying forward accumulated losses.

16. (A) The scenario in which the acquirer's current share price exceeds its intrinsic value
Overvaluation occurs when the market price of a company's shares is significantly higher than its actual intrinsic value based on fundamental analysis. In M&A, an overvalued acquirer might use its stock as an inexpensive currency to fund acquisitions. This allows the firm to acquire tangible assets or target companies while minimizing the actual economic cost to its current shareholders.

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17. (A) The exemption is contingent upon the amalgamated company being a foreign corporate entity.
Tax relief under Section 47(vi) of the Income Tax Act exempts capital gains arising from the transfer of assets in an amalgamation. For this exemption to apply, the resulting amalgamated company must be an Indian company. If the amalgamated entity is a foreign corporation, the transaction does not qualify for this specific benefit, making the transfer subject to taxation.

18. (C) 26%
Under SEBI regulations, the enforcement of a pledge on shares within an FDI special purpose vehicle can lead to a change in control. If this enforcement results in the lender acquiring a significant stake, a mandatory open offer is triggered. Specifically, the offer must be made for at least twenty-six percent of the target company's total voting shares.

19. (D) Investors are not permitted to use the proceeds from unlisted NCDs to purchase securities on the capital market.
Regulatory guidelines restrict how funds raised through the issuance of unlisted Non-Convertible Debentures can be deployed. Investors are explicitly prohibited from using these proceeds to purchase securities directly on the capital market. This restriction ensures that the debt capital is used for intended corporate purposes or direct investments rather than speculative activities in the secondary equity markets.

20. (A) It results in the dilution of the earnings and ownership of the current shareholders
When bondholders convert their debt into equity at a discount, the total number of outstanding shares in the company increases. This process leads to the dilution of the ownership percentage held by existing shareholders. Furthermore, because the same total earnings must now be divided among a larger pool of shares, the earnings per share for the company typically decreases.

21. (C) Foreign-owned and controlled operating companies (FOCC) incorporated in India
An Indian acquirer establishing an offshore special purpose vehicle can source funds from various international entities, including foreign lenders and global capital markets. However, a Foreign Owned and Controlled Company incorporated within India is restricted from providing such leverage. Regulations aim to separate domestic financing mechanisms from the capital structures used by offshore SPVs for international expansion.

22. (C) Up to eight assessment years
The Indian tax framework allows businesses to carry forward operational losses that cannot be fully offset in the year they were incurred. Taxpayers can generally utilize these losses to reduce taxable income for up to eight succeeding assessment years. This provision supports business recovery by allowing firms to benefit from tax shields as they return to profitability following a loss.

23. (D) The extent to which the acquiring company takes on the liabilities of the target organisation
Risk sharing in deal structuring refers to the allocation of potential liabilities between the buyer and the seller. It involves determining the degree to which the acquiring company assumes the target's existing or future obligations. By negotiating these terms, parties can distribute financial and operational uncertainties, ensuring that neither side bears an disproportionate burden if negative contingencies occur.

24. (D) Taxable stock purchases inherently result in double taxation for the shareholders of the target company.
In taxable acquisitions, the form of the transaction determines the tax impact. While a cash purchase of assets can lead to double taxation for the target and its shareholders, a stock purchase typically involves only one level of tax at the shareholder level. Understanding these distinctions is vital for structuring a deal that maximizes post-tax value for all participants.

25. (B) The corporate or divisional structure is frequently chosen when the acquirer plans to immediately integrate the target.
Selecting the appropriate organizational structure after an acquisition depends on the buyer's strategic goals. A corporate or divisional structure is highly effective when the acquirer intends to integrate the target's operations immediately into its own. This model provides the greatest

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level of managerial control and facilitates the rapid realization of synergies by merging administrative and operational functions.

26. (D) An asset representing potential future financial gains from acquired resources not identified

In financial reporting, goodwill is recognized when the purchase price of an acquisition exceeds the fair market value of the identifiable net assets. It represents an intangible asset reflecting the potential for future financial gains from resources that cannot be individually identified or separately recognized. These might include brand reputation, customer loyalty, or specialized employee expertise that adds value.

27. (A) The management's historical dividend payout ratios

When choosing an acquisition vehicle, management focuses on factors such as the ease with which ownership can be transferred, the continuous existence of the organization, and the scope of individual liability. These elements ensure operational stability and legal protection. Historical dividend payout ratios are a reflection of past financial policy rather than a structural requirement for selecting a legal entity.

28. (B) One year

When Foreign Portfolio Investors subscribe to non-convertible debt obligations in India, specific regulatory timeframes apply. There is generally a requirement for these debt instruments to have a minimum maturity or length of at least one year at the time of investment. This rule helps stabilize the debt market by encouraging longer-term capital inflows rather than volatile, short-term investments.

29. (C) An ESOP structure provides a complex mechanism for publicly traded companies to distribute dividends to offshore investors.

Acquisition vehicles like holding companies and partnerships offer distinct advantages based on liability isolation and tax efficiency. While a corporate structure provides transaction flexibility, an Employee Stock Ownership Plan is designed specifically to facilitate employee ownership in a business. It is not intended as a mechanism for distributing dividends to offshore investors, which would involve different regulatory and tax frameworks.

30. (D) The target pays taxes on asset gains, and shareholders pay taxes on distributed proceeds

Double taxation occurs in a taxable asset sale when the target company first pays corporate tax on the gains realized from selling its assets. Subsequently, when the company liquidates and distributes the remaining cash to its shareholders, the shareholders must pay individual taxes on those distributions. This two-tier tax impact significantly reduces the net proceeds available to the sellers.

31. (B) 1, 3, 4, 2

Under the purchase method of accounting, the acquisition cost is allocated in a specific chronological sequence. First, the total purchase price is calculated. Next, this cost is assigned to the fair value of tangible net assets, followed by identifiable intangible assets. Finally, any remaining difference between the total cost and the assigned asset values is recorded as goodwill on the balance sheet.

32. (B) Reverse triangular cash merger — Target company is merged into the acquirer's operating subsidiary and ceases to exist.

In a reverse triangular cash merger, the acquirer's subsidiary is merged into the target company. The target company continues to exist as a surviving legal entity, often becoming a subsidiary of the acquirer. This contrasts with a forward triangular merger where the target is absorbed by the subsidiary and disappears, making the survival of the target a key distinguishing feature.

33. (B) Assessing the basis of the assets they are acquiring and avoiding accountability for existing tax issues

During an acquisition, a buyer's primary tax concern is establishing the basis of the acquired assets to optimize future depreciation and minimize gains upon resale. Additionally, the buyer seeks to structure the transaction to avoid accountability for the target company's historical tax liabilities. Protecting against these legacy issues ensures that the financial benefits of the deal are not eroded.

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34. (D) Statement I is false, but Statement II is true
Standard banking regulations in India generally prohibit banks from financing a promoter's equity contribution for acquisitions. Instead, domestic financing for such transactions is typically sourced through Non-Banking Financial Companies or by issuing Non-Convertible Debentures. This regulatory environment forces acquirers to seek alternative debt markets and structured finance solutions to fund the equity portion of their takeover strategies.

35. (A) P-2, Q-1, R-4, S-3
The Income Tax Act contains various sections governing corporate restructuring and taxation. Section 72A deals with the carry-forward of losses, while Section 47(vi) and Section 47(vii) provide capital gains exemptions for companies and shareholders respectively. Section 115JB establishes the Minimum Alternate Tax based on book profits, ensuring a comprehensive legal framework for the taxation of merged or amalgamated business entities.

36. (A) I and II only
Acquisitions in India are frequently funded through Alternative Investment Funds and Foreign Portfolio Investors. These channels provide flexible capital that complies with current regulatory standards. While Foreign Owned and Controlled Companies operate within the country, they face specific restrictions regarding leveraging the Indian market to finance acquisitions, making them less common as primary domestic lenders for these specific transactions.

37. (A) Convertible securities
Convertible securities are an effective payment method when both parties face uncertainty regarding the target's valuation. These instruments provide the seller with a fixed income stream and a debt floor, while offering the potential for equity upside if the company performs well. This balanced approach helps bridge knowledge gaps and alleviates mutual concerns by sharing the risks and rewards.

38. (A) P-1, Q-2, R-3, S-4
Different financing structures serve specific roles in M&A. Foreign Direct Investment special purpose vehicles often obtain senior loans abroad, while Foreign Owned and Controlled Companies face domestic leverage restrictions. External Commercial Borrowings are utilized for overseas joint ventures, and domestic Non-Convertible Debentures are a primary route for local financing. These mechanisms provide the necessary capital for complex acquisitions.

39. (D) Statement I is false, but Statement II is true
A direct statutory stock merger facilitates a seamless transition where all assets and liabilities are immediately transferred to the surviving entity. Conversely, a direct statutory cash merger is generally treated as a taxable transaction for the target company's shareholders because they receive cash instead of a continuing equity interest. This distinction is critical for parties evaluating the tax efficiency.

40. (A) P-3, Q-4, R-1, S-2
Post-closing organizational choices are driven by strategic needs. Corporate structures offer immediate control for integration, while holding companies isolate specific liabilities and obligations. Partnerships and joint ventures are often utilized to pass through operational losses and tax credits directly to participants. Employee Stock Ownership Plans provide a specialized mechanism for transferring ownership to the workforce with associated fiscal benefits for the company.

41. (B) I and III only
Foreign Owned and Controlled Companies are restricted from using leverage in the Indian market for share purchases, making traditional bank loans unavailable for acquisitions. To bypass this, they often issue Non-Convertible Debentures that are subscribed to by Foreign Portfolio Investors. This structured debt route allows them to raise necessary capital within the regulatory framework governing foreign investment and domestic corporate borrowing.

42. (C) Issuing Non-Convertible Debentures (NCDs) which are then purchased by Foreign Portfolio Investors (FPIs).
When a Foreign Owned and Controlled Company cannot access Indian bank loans, issuing Non-Convertible Debentures becomes the most viable financing route. These instruments are typically purchased by Foreign Portfolio

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Investors, providing the FOCC with the required acquisition capital. This method adheres to Reserve Bank of India guidelines while allowing the entity to complete domestic transactions through specialized debt markets.

43. (B) Section 72A — Carry forward and set off of accumulated loss and unabsorbed depreciation of the amalgamating company.
Section 72A of the Income Tax Act provides a crucial tax benefit by allowing the amalgamated company to carry forward and set off the accumulated losses and unabsorbed depreciation of the amalgamating entity. This provision encourages the consolidation of distressed industrial units with healthy companies. Other sections, while relevant, do not explicitly grant the specific right to transfer MAT credits.

44. (A) P-2, Q-4, R-3, S-1
The classification of an industrial undertaking under Section 72A covers diverse sectors. Software manufacture involves producing computing programs, while power businesses focus on electricity generation and distribution. Ship construction and telecommunications, including broadband and internet services, also qualify. These categorizations allow companies in these essential industries to utilize specific tax incentives and loss carry-forward provisions during corporate restructurings.

45. (A) I and II only
For an amalgamated company to claim benefits under Section 72A, it must adhere to strict continuity requirements. The company must continue the business of the acquired entity for at least five years. Additionally, it must retain at least three-fourths of the book value of the fixed assets for the same five-year period. These rules ensure that the amalgamation serves genuine industrial revival.

46. (B) When the value of the tax benefits is large, the risk is high, and participants want to pass on operational losses and tax credits
A partnership or joint venture is the preferred organizational form when the transaction involves significant risks and substantial tax benefits. This structure allows for the direct pass-through of operational losses and tax credits to the individual participants. It is particularly useful when parties want to share the financial burden of a venture while maximizing the immediate utilization of fiscal incentives.

47. (D) Statement I is false, but Statement II is true
In the United States, there has been a documented increase in businesses operating with minimal leverage since the late 1970s. Regarding mergers, combining companies with uncorrelated cash flows typically leads to greater financial stability. This increased stability actually allows the merged entity to support a higher level of debt, rather than requiring a decrease in leverage after the transaction is completed.

48. (A) P-2, Q-1, R-4, S-3
Merger structures vary by payment form and legal survival. A statutory cash merger involves negotiated cash payments, while a statutory stock merger uses equity and leaves one entity standing. Triangular mergers involve subsidiaries, with the reverse form allowing the target company to continue existing. Each type offers specific legal and operational advantages depending on the acquirer's goals and regulatory requirements.

49. (A) FOCC — An Indian domestic mutual fund explicitly designed to lend rupees to foreign acquirers.
A Foreign Owned and Controlled Company is a domestic Indian entity that is owned by international investors, rather than a mutual fund designed to lend to foreign acquirers. Understanding these definitions is essential for navigating the rules of inbound and outbound acquisitions. Offshore special purpose vehicles and specific investment vehicles play distinct roles in facilitating cross-border capital flows.

50. (A) P-2, Q-1, R-4, S-3
Financing instruments have different priorities and features. Senior debt has the highest claim during liquidation, while subordinated debentures rank lower. Convertible bonds offer an exchange for stock, providing a balance of debt and equity. A proration clause is a vital legal tool used in mixed offers to cap the total cash payout, ensuring financial predictability for the acquiring company.

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ANSWERS

1. (C) 15%
Section 115JB of the Income Tax Act establishes Minimum Alternate Tax requirements for corporate entities. If the calculated income tax under standard provisions falls below fifteen percent of the company's book profits, the company must pay this alternative minimum amount. This ensures that profit-making companies contribute a baseline tax regardless of various exemptions or deductions utilized.

2. (C) A bank cannot finance the acquisition of equity shares, except in extraordinary circumstances.
Reserve Bank of India guidelines generally prohibit domestic banks from providing finance for the purchase of equity shares. This restriction aims to prevent excessive speculation and maintain financial stability within the banking system. Exceptions are only permitted under specific, extraordinary circumstances defined by the regulator, ensuring that bank funds are primarily utilized for productive credit and development.

3. (C) The asset value used for depreciation and determining future taxable gains upon sale
In business acquisitions, tax basis represents the specific value assigned to an asset for tax purposes. This figure is crucial for calculating future depreciation deductions and determining the taxable gain or loss upon the eventual sale of the asset. A higher tax basis can provide significant fiscal benefits by reducing the taxable income of the acquiring entity.

4. (C) Indian banks are entirely prohibited from providing onshore loans to complete any outbound acquisition under all circumstances.
Indian banking regulations provide specific frameworks for financing outbound acquisitions, allowing for structured credit facilities under certain conditions. While domestic lending is monitored, it is inaccurate to claim a total prohibition under every circumstance. Entities often utilize offshore special purpose vehicles and external commercial borrowings to manage cross-border transaction costs while remaining compliant with current Reserve Bank guidelines.

5. (B) The target's preference for growth prospects or the desire for a tax-deferred transaction
Large acquirers often prefer stock offers to align with the target company's objectives regarding long-term growth prospects. These transactions frequently allow for tax-deferred treatment, which is highly attractive to selling shareholders who wish to postpone capital gains liabilities. By using equity as currency, the acquiring firm can preserve its cash balances for operational integration and future investments.

6. (B) The demographic diversity of the borrower's workforce
Credit-rating agencies evaluate a borrower's ability to meet financial obligations by analyzing earnings consistency, capital structure, and debt subordination levels. These technical factors provide a quantitative basis for assessing default risk. Social attributes like workforce demographic diversity, while relevant to corporate social responsibility, are not typically treated as core variables in the numerical calculation of creditworthiness for debt.

7. (B) An agreement between two parties specifying their respective rights and obligations
A deal structure acts as the foundational agreement between transacting parties, detailing the specific rights, responsibilities, and legal obligations of each side. It encompasses the chosen form of payment, the legal mechanism of the merger, and the allocation of liabilities. This framework ensures that both the buyer and seller have a clear, enforceable understanding of the transaction terms.

8. (B) It takes into account issues which may arise several years into the future and unforeseen risks.
Effective M&A deal structuring goes beyond immediate price negotiations to address potential challenges that may arise years after the transaction. A comprehensive approach considers unforeseen risks, long-term operational

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60. (A) P-4, Q-1, R-2, S-3
Financial reporting for business combinations involves several core concepts. The acquisition method dictates the recording of net assets and goodwill. Non-controlling interest reflects the portion of the target not owned by the parent. Differences between Ind-AS and I-GAAP center on valuation methods, while goodwill represents the future economic benefits expected from acquired resources that are not specifically identifiable.

61. (D) I, II, III, IV, and V
To successfully carry forward accumulated losses under Section 72A, an amalgamated company must satisfy multiple statutory conditions. These include being an Indian company, maintaining fixed assets for five years, and continuing the business for the same period. Additionally, it must achieve fifty percent production capacity within five years and furnish a verified certificate in Form 62, ensuring full compliance with the law.

62. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
A Foreign Owned and Controlled Company is unable to secure acquisition financing directly from Indian banks because of regulatory prohibitions. Current guidelines prevent these entities from using domestic leverage to purchase shares in the Indian market. This restriction ensures that foreign investment remains equity-focused and prevents the use of local banking funds for the external acquisition of domestic equity interests.

63. (A) I and II only
Section 115JB mandates a Minimum Alternate Tax of fifteen percent when standard tax liabilities are low. While excess MAT can be carried forward under Section 115JAA, there is notably no express provision allowing an amalgamated company to automatically claim the MAT credit of the amalgamating company. This lack of statutory clarity often necessitates careful planning during corporate restructurings to avoid losing credits.

64. (C) Continuity of commercial enterprise
The step-transaction theory requires that an acquired business continue its historic commercial operations to qualify for certain tax exemptions. By selling off manufacturing plants and pivoting to an unrelated software business, the acquirer fails the continuity of commercial enterprise test. This significant shift in operations allows tax authorities to treat the entire deal as a taxable event rather than a reorganization.

65. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Shareholders in a taxable cash purchase of assets often face double taxation. The first layer occurs at the corporate level when the target company pays tax on the gains from the asset sale. The second layer happens at the individual level when the remaining proceeds are distributed as dividends during the company's liquidation. This structure makes asset sales less tax-efficient.

66. (A) A 40% non-controlling (minority) interest shown separately from the parent's equity
When an acquirer gains control by purchasing a sixty percent stake, it must still record one hundred percent of the target's assets and liabilities at fair value. To account for the remaining forty percent ownership not held by the parent, a non-controlling interest is recorded in the equity section of the consolidated balance sheet. This ensures the financial statements accurately reflect the entity.

67. (A) I, II, and III only
An acquirer is more likely to use cash when the target has significant borrowing capacity and a high credit rating, which can support the acquisition debt. Furthermore, using cash allows the bidder to maintain full control of the company without diluting existing shareholders. Demands for immediate dilution from the target's side would typically discourage the use of cash in favor of equity.

68. (D) Assertion (A) is false, but Reason (R) is true.
It is inaccurate to claim that an acquirer will use cash when its share price is overvalued. In reality, overvalued stock serves as a highly efficient and inexpensive currency for making acquisitions. By using its own expensive shares as payment, the firm can complete the takeover while minimizing the need for debt or the expenditure of cash reserves, maximizing company value.

NODIA

51. (A) I and II only
Loan Market Association standards are widely recognized for international acquisition finance involving foreign currencies and international lenders. These forms provide a consistent framework for cross-border credit agreements. However, they do not serve as the universal statutory standard for domestic acquisitions conducted purely in Indian rupees by Non-Banking Financial Companies, which typically follow local regulatory and market practices.

52. (A) 3, 2, 4, 1
Applying the acquisition method under IND AS 103 follows a mandatory chronological order. The process begins with identifying the acquirer, followed by determining the precise acquisition date. Subsequently, the entity must recognize and measure the identifiable assets, liabilities, and any non-controlling interest. The final step involves calculating and recording either goodwill or a gain from a bargain purchase.

53. (B) P-1, Q-4, R-2, S-3
Key tax concepts define the fiscal impact of an acquisition. Boot refers to taxable non-equity consideration, while Net Operating Loss can be carried forward to offset future income. The tax basis determines the value for depreciation, and the step-transaction theory requires continuity for tax-free status. These elements must be meticulously managed to ensure the transaction achieves the desired financial outcomes.

54. (C) Statement I is true, but Statement II is false
Under Ind-AS, companies generally record investments at fair value, though they may choose to record subsidiary investments at cost. In share acquisitions, identifiable intangible assets are typically recognized in the consolidated financial statements rather than the standalone books of the target company. This accounting treatment reflects the overall economic value acquired by the parent entity while maintaining the target's historical record.

55. (A) Mixed Cash and Stock — Providing target shareholders options, particularly when they need cash for tax liabilities but desire future appreciation.
Offering a mix of cash and stock provides flexibility for target shareholders, allowing them to cover immediate tax liabilities with cash while retaining potential for future share appreciation. This approach is useful when valuation certainty is moderate. In contrast, all-cash offers are often chosen to expedite deals, and stock-only offers may be preferred when the acquirer's equity is highly valued currency.

56. (A) A proration clause
A proration clause is a strategic legal provision included in merger agreements to manage the uncertainty of total cash payouts in multi-option bids. It allows the acquirer to set a maximum limit on the amount of cash it will pay. If too many shareholders select the cash option, the clause dictates that they receive a proportionate mix of cash and stock.

57. (A) I and II only
To qualify for tax-free status under the step-transaction theory, a deal must satisfy requirements for continuity. This includes maintaining the continuity of ownership interests among the target's shareholders and the continuity of the target's historic business enterprise. Liquidating the target's business assets immediately after the acquisition would violate these principles, likely leading the tax authorities to reclassify the transaction as taxable.

58. (A) P-3, Q-4, R-1, S-2
The choice of payment is dictated by financial circumstances. Cash is preferred when the target has high borrowing capacity and the acquirer wants control. Stock is used when the acquirer's borrowing is limited or the target is overvalued. A mix helps shareholders with taxes and growth, while convertible securities solve knowledge gaps between the parties by providing both protection and future potential.

59. (A) Both Statement I and Statement II are true
Deal structuring is fundamentally about risk sharing, which involves the deliberate distribution of potential liabilities between parties. Managing these risks is often compared to squeezing a water balloon; efforts to mitigate risk in one area of the contract frequently cause it to migrate to another. Recognizing this dynamic is essential for negotiators to reach a balanced agreement that protects their respective interests.

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78. (A) I, II, III, and IV only
IND AS 103 establishes a comprehensive framework for accounting for business combinations using the acquisition method. It requires the identification of the acquirer and the acquisition date, as well as the measurement of all identifiable assets and liabilities at fair value. This standard also mandates the recognition of one hundred percent of assets and liabilities, regardless of the percentage of ownership.

79. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The enforcement of a pledge on the shares of an FDI special purpose vehicle can trigger a mandatory open offer under SEBI Takeover Regulations. If the lender's enforcement results in acquiring twenty-five percent or more of the voting rights in a listed Indian target, it constitutes a substantial acquisition. This regulation is designed to protect minority shareholders by requiring a public tender offer.

80. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Direct statutory cash mergers are treated as taxable acquisitions of assets because they lack the necessary continuity of interest. Since the consideration is primarily in cash rather than equity, the transaction does not meet the requirements for a tax-free reorganization. Consequently, the deal is taxed as a sale of assets, followed by the liquidation and distribution of proceeds to shareholders.

81. (C) Outbound Acquisition Finance from Offshore Sources
Titan Ltd's use of a Singapore-based special purpose vehicle to borrow from European markets represents a classic outbound acquisition finance structure. This strategy allows the Indian parent to access international capital and bypass domestic constraints while funding the purchase of a foreign manufacturing firm. Using offshore sources provides flexibility in currency and interest rates, which is essential for managing cross-border financial risks.

82. (A) I, II, III, and IV only
Acquirers prefer using stock when their shares are overvalued or when they have limited borrowing capacity. Additionally, stock is favored when integration is expected to take a long time or when the target possesses intangible assets that are difficult to value. These factors allow the acquirer to share the risks and rewards of the merger with the target's shareholders while preserving cash.

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83. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Containing risk in a complex transaction is often compared to squeezing a water balloon because risk is rarely eliminated; it merely moves. Decisions made to reduce financial or legal exposure in one section of a merger agreement frequently result in increased risk or more stringent conditions in other parts of the contract. Negotiators must therefore balance these trade-offs to reach agreement.

84. (C) They will be subject to a secondary layer of taxation, resulting in double taxation.
Shareholders of Base Ltd face double taxation because the transaction is structured as an asset sale followed by liquidation. First, the corporation pays tax on the gains from the sale of its business assets. Then, when the remaining cash is distributed as dividends to the shareholders, they are taxed again at the individual level. This two-tier tax impact significantly decreases payouts.

85. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
In a taxable cash purchase of assets, the target's tax cost is stepped up to fair market value, which is a key advantage for the buyer. While it is true that the target recognizes a gain or loss based on the difference between market and book value, this recognition is the result of the sale transaction itself rather than the reason.

86. (A) I, III, and IV only
Convertible bonds are debt instruments that can be converted into common stock at a set ratio. They typically feature low coupon rates because the conversion option adds value for the holder. Conversion leads to the dilution of

into liquidation, preference shareholders will receive everything that is rightfully theirs before equity shareholders receive anything.
Reason (R): Preference shareholders have a legal claim to receive dividends that enables them to push the company into bankruptcy if they are not paid.
Which of the following is correct?
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2009

16. Match the types of Preference Shares in List I with their corresponding features in List II and select the correct option.
List I: (Type)
P. Cumulative Preference Shares
Q. Non-Cumulative Preference Shares
R. Participating Preference Shares
S. Non-Participating Preference Shares
List II: (Features)
1. Receive only a predetermined rate of dividend and no additional rights in surplus
2. Unpaid dividends accumulate and are recorded as a contingent liability
3. Right to participate in any surplus profits remaining after equity dividends
4. Right to receive dividend is forfeited if not declared in a given year
(A) P-2, Q-4, R-3, S-1
(B) P-1, Q-3, R-4, S-2
(C) P-3, Q-1, R-2, S-4
(D) P-4, Q-2, R-1, S-3

Oct/Nov 2015

17. What defines a Cumulative Preference Share?
(A) A share that only receives a predetermined rate of dividend and gets no additional rights in profits.
(B) A share that holds the right to a definite sum of dividend that continues to accumulate unless completely paid out.
(C) A share that grants the holder the right to participate in surplus profits after equity shareholders are paid.
(D) A share issued on the condition that the company will never redeem it.

May/June 2013

18. Identify the incorrect pair regarding types of preference shares.
(A) Non-Redeemable Preference Shares - Come with an arrangement guaranteeing immediate redemption upon request.
(B) Redeemable Preference Shares - Issued on condition that the company will redeem them after a specified period.
(C) Convertible Preference Shares - Holders have the right to have them converted into equity shares.
(D) Adjustable-rate Preference Shares - Dividend payouts depend on the interest rates prevalent in the market.

Oct/Nov 2008

19. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): The holder of a participating preference share is entitled to receive a predetermined amount of the surplus if the company is wound up.
Reason (R): This right to surplus is granted immediately and before the equity shareholders have been compensated in full.
Which of the following is correct?
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2006

20. A company has failed to pay dividends on a specific class of preference shares for two consecutive years. According to accounting and legal provisions, how must these unpaid dividends be handled?
(A) They must be immediately converted into short-term debt.
(B) They are permanently forfeited by the shareholders.
(C) They are deducted from the securities premium account immediately.
(D) They are recorded as a contingent liability

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95. (A) The bilateral Double Taxation Avoidance Agreement (DTAA) between India and Mauritius Double Taxation Avoidance Agreements are bilateral treaties designed to prevent the same income from being taxed in two different countries. For a cross-border acquisition involving India and Mauritius, the DTAA provides the essential legal framework to determine tax residency and withholding duties. This ensures that the buyer and seller can manage their global tax liabilities predictably and avoid overlapping tax claims.

96. (B) They will deny it, as there is no express provision in Section 115JAA allowing the carry-forward of MAT credit.
Tax authorities generally deny the carry-forward of Minimum Alternate Tax credit in an amalgamation because the relevant law, Section 115JAA, lacks an express provision allowing for its transfer. Unlike business losses or depreciation, which have specific rules for transfer, MAT credit is often considered personal to the entity that paid it. Without clear statutory language, the credit typically lapses upon dissolution.

97. (A) ECB funding cannot be put toward equity investments within the country.
Reserve Bank of India guidelines strictly regulate the use of External Commercial Borrowings. One critical restriction is that ECB proceeds cannot be utilized for making equity investments in domestic Indian companies. This rule prevents firms from using cheaper foreign-currency debt to finance the acquisition of local shares, ensuring that cross-border borrowing is primarily directed toward infrastructure and productive capital expenditures.

98. (B) The Companies Act of 2013 and applicable SEBI regulations
The issuance of Non-Convertible Debentures by an NBFC for a domestic acquisition must comply with the Companies Act of 2013 and specific SEBI regulations. These frameworks govern the creation of debenture trust deeds and the content of the information memorandum. Adherence to these rules ensures transparency, protects the interests of the debenture holders, and maintains the integrity of the public debt markets.

NODIA

99. (D) A mandatory open-offer requirement under the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations.
If an overseas lender enforces a pledge on shares in an FDI special purpose vehicle and gains a significant stake in a listed Indian company, it triggers the SEBI Takeover Regulations. This event necessitates a mandatory open offer to the public shareholders of the target company. The regulation is intended to provide exit opportunities and ensure fair treatment for minority investors upon control changes.

100. (D) It is considered "boot" and is subject to the same taxation as regular income.
In a transaction that is primarily stock-based and tax-free, any additional cash consideration paid to shareholders is classified as boot. This non-equity payment is not exempt from taxation and is typically treated as regular income by the tax authorities. While the stock portion allows for tax deferral, the cash component triggers an immediate tax liability for the recipients during the transaction.

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Oct/Nov 2012

27. Consider the following statements regarding redemption of fully paid up preference shares:

I. In case of redemption through fresh issue, the shareholder fund is kept intact directly.

II. In case of distributable profits being transferred to Capital Redemption Reserve Account, the same is kept intact indirectly.

Which of the statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2011

28. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).

Assertion (A): When divisible profits are transferred to the Capital Redemption Reserve Account, they become Non-divisible profits.

Reason (R): The balance in the Capital redemption reserve account can only be used for the issue of bonus shares to ensure shareholder funds revert to the same amount as before redemption.

Which of the following is correct?

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2020

29. A firm proceeds to redeem its fully paid-up preference shares by retaining distributable profits. To safeguard the interest of outsiders who are to be paid before the redemption, what specific action ensures the nominal value of the capital redeemed is substituted?

(A) The firm immediately issues convertible bearer form bonds.
(B) The firm requests an exemption from the Credit Rating Agencies.
(C) The firm transfers the retained profits to the Capital Redemption Reserve Account.
(D) The firm completely liquidates its physical assets to match the nominal value.

May/June 2022

30. What is the limit for Perpetual Non-Cumulative Preference Shares (PNCPS) in Additional Tier 1 Capital for an Indian bank?

(A) They cannot exceed 1.5% of risk-weighted assets.
(B) They cannot exceed 2% of risk-weighted assets.
(C) They must exactly equal 9% of total tier 1 capital.
(D) They cannot exceed 10% of total paid-up capital.

Oct/Nov 2010

31. Consider the following statements regarding PNCPS qualifying for Additional Tier 1 Capital:

I. The instruments should be issued by the bank and fully paid up.

II. Excess PNCPS can be considered Tier 2 capital if less than 2% of RWAs.

III. PNCPS have a specific maturity date and mandatory step-ups.

IV. Investor dividends may be fixed or floating.

V. Principal of the instruments may be repaid only with prior approval of RBI.

Which of the statement(s) is/are correct?

(A) I, II, IV, and V
(B) I, III, IV, and V
(C) II, III, IV, and V
(D) I, II, III, and V

May/June 2010

32. Regarding the issue of PNCPS, which of the following statements represents an incorrect investment limit?

(A) FIIs may invest up to 49% of the issue.
(B) Each NRI investor is limited to 15%.
(C) NRIs may invest up to 24% of the issue.
(D) Each FII investor is limited to 10%.

Oct/Nov 2006

33. A bank wishes to exercise a call option on its issued PNCPS. Under which of the following conditions is the exercise of the call option acceptable?

(A) The instrument has been active in the bank's books for at least two years.
(B) The bank replaces the instrument with capital of equal or higher quality.
(C) The bank triggers the call to influence investor expectations without RBI permission.

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(B) They show less volatility in their market price due to regular, pre-determined return.
(C) They diversify the overall risk for the issuer as they lack strict definition of equitable or debt securities.
(D) Calculation of return on hybrid securities is simpler than on equity or bond securities.

May/June 2019

8. Why is investing through hybrid securities considered more complicated?
(A) Returns are not as straightforward to calculate as standard equity or debt.
(B) They consistently provide lower yields than traditional unsecured debt.
(C) They are exclusively reserved for large-scale foreign institutional investors.
(D) They instantly convert into common stock upon any minor market fluctuation.

Oct/Nov 2011

9. What is the definition of "perpetual or irredeemable preference shares"?
(A) Preference shares that are issued at a severe discount.
(B) Preference shares that guarantee fixed dividends directly tied to LIBOR.
(C) Preference shares that do not have a maturity date.
(D) Preference shares that provide creditors the ability to push the company into bankruptcy.

May/June 2005

10. Identify the correct pair of Credit Rating Agencies nationally recognised in India.
(A) CRISIL and ICRA
(B) SEBI and RBI
(C) NSE and BSE
(D) ECB and RDB

Oct/Nov 2022

11. Consider the following statements regarding preference share capital under Section 43 of the Companies Act, 2013:
I. It carries a preferential right with respect to the payment of taxable or tax-free dividend.
II. It carries a preferential right for the repayment of paid-up or deemed paid-up share capital in the case of a winding up.
Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2014

12. Under Section 47 of the Companies Act, after what period of non-payment of dividend do preference shareholders gain the right to vote on all resolutions placed before the company?
(A) Six months or more
(B) One year or more
(C) Two years or more
(D) Three years or more

Oct/Nov 2014

13. Consider the following statements regarding the issue and redemption of preference shares under Section 55:
I. Issue of irredeemable shares is prohibited.
II. An outer limit of a period not exceeding twenty years from the date of issue is enforced for general companies.
III. Issue of preference shares for a period exceeding twenty years is strictly prohibited for infrastructure projects.
Which of the statement(s) is/are correct?
(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

May/June 2025

14. Which of the following statements regarding the redemption of preference shares is incorrect?
(A) Companies issuing preference shares for infrastructure projects may exceed a twenty-year period.
(B) Redemption of infrastructure project preference shares is subject to redemption of a prescribed percentage on an annual basis.
(C) Preference shareholders have a higher priority claim on the company's income and assets than equity shareholders.
(D) Indian companies are permitted to issue irredeemable preference shares if they are highly rated.

Oct/Nov 2025

15. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): In the event that a company is put

NODIA

May/June 2018

40. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): A problem arises when a fresh issue of shares to redeem preference shares is made at a premium.
Reason (R): Section 52 of the Companies Act provides specific guidelines on how the securities premium account may be applied by the company.
Which of the following is correct?
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2009

41. A company allots warrants to a Promoter Group Entity. As per the regulations for preferential allotments in India, what percentage of the price must the buyer of the warrants pay upfront?
(A) 10%
(B) 25%
(C) 50%
(D) 100%

May/June 2024

42. What is the definition of a warrant?
(A) The right to buy equity shares at a fixed price within a specific timeframe.
(B) The obligation to sell equity shares at the prevailing market price upon maturity.
(C) A debenture that undergoes automatic conversion into equity shares upon expiration.
(D) A bond issued internationally that is denominated in the issuer's home currency.

Oct/Nov 2014

43. To protect the interest of minority shareholders, the pre-determined price of warrant conversion in cases of preferential allotment cannot be less than:
(A) The closing price of the related shares on the exact date of the allotment.
(B) The six-month or two-week average of high and low closing prices.
(C) The face value of the shares plus a mandatory twenty percent issuance premium.
(D) The average price of the shares recorded over a ten-year historical period.

May/June 2009

44. An institutional investor is allotted warrants on a preferential basis and pays the required upfront amount. If the investor eventually decides not to exercise the warrants, what happens to the upfront payment?
(A) It is refunded with interest calculated at the LIBOR rate.
(B) The entire upfront payment is forfeited.
(C) It is converted into non-cumulative preference shares.
(D) It is transferred to the Capital Redemption Reserve Account.

Oct/Nov 2011

45. Consider the following statements regarding the features of warrants:
I. Warrants carry automatic voting rights from the date of issuance.
II. Only after warrants are converted into equity shares does the investor get dividend and voting rights.
III. In some cases, warrants are attached to debt instruments in order to "sweeten" the terms of debt issues.
Which of the statement(s) is/are correct?
(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

May/June 2020

46. Which of the following is a correct statement outlining a similarity between warrants and convertible debentures?
(A) The debenture and the option in both instruments can be separated from one another at any time.
(B) Both always result in an accounting transfer without injecting additional capital.
(C) In both cases, a 25% upfront payment is mandatorily forfeited if not converted.
(D) They both confer a call option on the equity stock of the corporation upon the holder of the security.

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in the company's balance sheet.

Oct/Nov 2023

21. Consider the following statements regarding types of preference shares:

I. Irredeemable preference shares can be redeemed by a company only on liquidation or shutting down of operations.

II. Non-convertible preference shares grant the owner the right to convert holdings into common stock automatically.

III. Adjustable-rate preference shares do not qualify for a fixed dividend rate.

Which of the statement(s) is/are correct?

(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

May/June 2017

22. Consider the following statements regarding the purpose of issuing preference shares:

I. It is an improved method for acquiring capital in an uninteresting primary market.

II. A charge, such as a mortgage or hypothecation, is necessary in order to issue preference shares.

III. The Rules for the Acceptance of Deposits do not apply to preference shares.

IV. It is possible to immediately issue preference shares to obtain cash for the medium term, with flexible maturity periods.

Which of the statement(s) is/are correct?

(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, III, and IV

Oct/Nov 2017

23. What conceptual factor recently lowered investor willingness to accept a lower rate of dividend on preference capital?

(A) Dividends are now permanently tax-free in the hands of the retail investor.
(B) Preference shares were reclassified as external commercial borrowings by SEBI.
(C) Payouts are mandatorily linked to volatile international commodities indices.
(D) Dividends, formerly exempt, are now taxable for investors.

May/June 2008

24. Which of the following is NOT a characteristic justifying the utilisation of preference capital?

(A) A charge, such as a mortgage or hypothecation, is necessary to issue preference shares.
(B) The possibility of getting money back in the future could entice investors.
(C) In case of loss or reduction in profit, no dividend is paid out, unlike debentures.
(D) It provides a strategy for a company that has reached its debt limit but is hesitant to release equity.

Oct/Nov 2013

25. Consider the following statements regarding the redemption of preference shares:

I. The redemption date is typically printed on the share certificate.

II. Section 55 ensures there is no reduction in shareholder's funds due to redemption.

III. Distributable profits can be retained and transferred to Capital Redemption Reserve Account.

IV. Redemption through fresh issue indirectly keeps the shareholder fund intact.

V. The nominal value of capital redeemed is substituted to safeguard outsider interest.

Which of the statement(s) is/are correct?

(A) I, II, III, and V
(B) II, III, IV, and V
(C) I, III, IV, and V
(D) I, II, III, IV, and V

May/June 2015

26. Which of the following is the correct statement regarding the Capital Redemption Reserve Account?

(A) The balance in this account can only be used for the issue of bonus shares.
(B) The balance in this account can freely distributed as cash dividends to equity shareholders.
(C) The transfer of divisible profits to this account makes them immediately tax-exempt.
(D) Distributable profits retained in this account are used for settling the claims of equity shareholders primarily.

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existing shareholders' earnings. These bonds are particularly useful in acquisitions when there is a lack of vital knowledge about the target's precise valuation or performance.

87. (B) The losses previously set off are treated as income of the entity for the year the failure occurred.
To retain the benefits of Section 72A, an amalgamated company must hold three-fourths of the book value of acquired fixed assets for at least five years. By selling fifty percent of the assets in the third year, Stellar Pharma fails this condition. Consequently, the tax losses previously set off will be treated as the entity's income for the failure year.

88. (A) II, III, IV, and V only
Inbound acquisitions financed by a Foreign Owned and Controlled Company typically involve the issuance of Non-Convertible Debentures. These NCDs are usually senior debt, secured by assets and a pledge on the target's shares, and are primarily purchased by Foreign Portfolio Investors. This structure is necessary because FOCCs are restricted from using traditional bank loans in the Indian market to fund purchases.

89. (B) Holding company structure
A holding company structure is ideal for Horizon Corp as it isolates the target's environmental liabilities within a separate subsidiary. This legal separation ensures that if the liabilities materialize, the parent company's assets remain protected. If necessary, the subsidiary can be pushed into bankruptcy without jeopardizing the financial health of the rest of the organization, providing a critical layer of protection.

90. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Accounting standards require a firm that buys a controlling fifty-point-one percent stake to record one hundred percent of the target's assets and liabilities. This reflects the parent's total managerial control over the subsidiary's resources. The remaining stake held by others is viewed as a non-controlling interest, which is treated as a component of the combined entity's overall equity structure.

91. (B) Stable uncorrelated cash flows increase the firm's overall capacity for leverage.
When two companies with uncorrelated cash flows merge, the resulting entity often experiences significantly more stable total cash flow. This diversification effect reduces the risk of default, which in turn increases the firm's capacity to carry a heavier debt load. Management can leverage this newfound financial stability to fund expansion or optimize the company's capital structure without increasing its relative distress risk.

92. (C) Dispute the notice because the transaction is not regarded as a transfer for capital gains purposes under Section 47(vii).
Under Section 47(vii) of the Income Tax Act, the transfer of shares by a shareholder in a scheme of amalgamation is not regarded as a taxable transfer for capital gains purposes. This applies as long as the transfer is made in consideration for an allotment of shares in the amalgamated company. Investor Z should dispute the notice based on this specific statutory exemption.

93. (D) They will face a dilution of their earnings per share and ownership percentage.
When bondholders convert their debt into common stock at a discount, the total number of outstanding shares increases significantly. This results in the dilution of the ownership percentage and the earnings per share for the original shareholders. While the firm's debt decreases, the existing equity holders must now share the company's profits and voting power with a larger group of investors.

94. (C) Electronically furnish a certificate in Form 62 duly verified by an accountant
To maintain the benefit of carrying forward accumulated losses, an amalgamated company must comply with periodic reporting requirements. This includes achieving specific production targets and filing a verified certificate in Form 62 with the tax authorities. This certificate confirms that the company has met the necessary industrial capacity thresholds, ensuring continued eligibility for the tax incentives provided under Section 72A of the Act.

NODIA

(D) The coupon reset date matches the call date to ensure predictable investor returns.

May/June 2021

34. A bank faces significant financial stress. According to the features of PNCPS, how should these instruments absorb principal losses at a pre-specified trigger point?
(A) Either by converting to common shares or by writing down the instrument.
(B) By converting into irredeemable preference shares only.
(C) By paying an immediate cumulative dividend to compensate investors.
(D) By transferring the loss directly to the depositors.

Oct/Nov 2019

35. If an Indian bank goes into liquidation, how will the claims of investors holding PNCPS be ranked?
(A) Superior to depositors and general creditors but subordinated to equity investors.
(B) Subordinated to equity investors but superior to all Tier 2 regulatory instruments.
(C) Superior to equity investors but subordinated to depositors and creditors.
(D) Equal to the claims of depositors and fully guaranteed by the issuing institution.

May/June 2005

36. Which of the following is the correct statement regarding options embedded in Perpetual Non-Cumulative Preference Shares (PNCPS)?
(A) A mandatory put option must be included to protect the interests of the investors.
(B) No put option is allowed, but banks may issue with a future call option.
(C) Step-ups and redemption incentives are required to ensure the instrument's liquidity.
(D) Related parties are encouraged to fund the purchase to maintain capital stability.

Oct/Nov 2007

37. Consider the following statements about distributions on PNCPS:
I. The bank must have full discretion at all times to cancel distributions/payments.
II. Dividends can be perfectly cumulative if approved by the bank's board.
III. Dividends cannot have a credit sensitive coupon feature.
IV. The bank is permitted to grant advances against their PNCPS.
Which of the statement(s) is/are correct?
(A) I and III
(B) II and IV
(C) I, II, and III
(D) I, III, and IV

May/June 2023

38. Match the applications of the securities premium account under Section 52 of the Companies Act, 2013 in List I with their descriptions in List II and select the correct option.
List I: (Application)
P. Application towards members
Q. Application towards preliminary expenses
R. Application towards issue of debentures
S. Application towards redemption
List II: (Description)
1. To write off expenses, commission paid, or discount allowed
2. To provide for premium on redemption of preference shares
3. To write them off completely
4. Issue of un-issued shares as fully paid bonus securities
(A) P-4, Q-3, R-1, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-4, R-2, S-1
(D) P-2, Q-1, R-4, S-3

Oct/Nov 2021

39. Which of the following statements is incorrect regarding the exception under Section 133 of the Companies Act 2013?
(A) Certain classes of companies whose financial statements comply with prescribed accounting standards cannot apply the securities premium account to write off preliminary expenses.
(B) Certain classes of companies cannot apply the securities premium account to provide for premium on redemption of preference shares.
(C) Section 133 provides specific exemptions regarding the application of the securities premium account for certain prescribed companies.
(D) All companies are universally barred from using the securities premium account for the purchase of their own shares.

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CHAPTER 19
Hybrid Finance

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Oct/Nov 2018

1. What defines a hybrid security?
(A) An instrument that represents the investment by promotors and investors exclusively.
(B) A single instrument combining the characteristics of both debt and equity.
(C) A financial instrument that represents a fixed claim on the cash flow and assets without managerial control.
(D) An instrument issued exclusively for acquiring capital in an uninteresting primary market.

May/June 2007

2. Why has the issuance of hybrid securities become a preferred method for companies?
(A) It allows companies to optimise the proportion of debt to equity in their overall capital structure.
(B) It provides full managerial control to creditors in the event of default scenarios.
(C) It ensures mandatory conversion into equity shares regardless of the maturity terms.
(D) It completely eliminates the requirement for credit ratings from nationally recognised agencies.

Oct/Nov 2016

3. Which of the following statements regarding the characteristics of debt and equity is incorrect?
(A) Equity share capital represents investment by promotors and investors having a residual claim on cash flows.
(B) Equity share capital provides managerial control and authority over the company.
(C) Debt is often related to managerial control and reflects a residual claim on assets.
(D) Debt reflects a fixed claim on the cash flow and assets of the company.

May/June 2021

4. Which of the following is the correct statement describing the fundamental right of a warrant owner?
(A) The owner has the obligation to purchase a predetermined number of equity shares at any market price.
(B) The owner has a fixed claim on the cash flow and remains immune to exchange rate fluctuations.
(C) The owner immediately gains full voting rights and managerial authority upon purchasing the warrant.
(D) The owner has the ability to buy a specific number of equity shares at a fixed price for a limited time.

Oct/Nov 2005

5. In a capital raising study for the period January 2021 to September 2022, what was the percentage share of External Commercial Borrowings (ECB) in the total capital raising efforts compared to Foreign Currency Convertible Bonds (FCCB) and Rupee Denominated Bonds (RDB)?
(A) 0.63%
(B) 4.35%
(C) 95.02%
(D) 100.00%

May/June 2012

6. Corporate India relies on various vehicles for capital raising. For a specific period, an analyst observes 1516 cases of External Commercial Borrowings (ECB), 33 cases of Rupee Denominated Bonds (RDB), and 3 cases of Foreign Currency Convertible Bonds (FCCB). What is the total amount raised across these instruments in USD Million?
(A) 63848.70
(B) 67194.34
(C) 2920.64
(D) 425.00

Oct/Nov 2024

7. Which of the following is NOT an advantage of hybrid securities?
(A) They generally offer a higher rate of return than debt.

Oct/Nov 2015

47. Arrange the following regulatory shifts governing convertible debentures in India in chronological order:

I. The Securities and Exchange Board of India Act was passed.

II. Convertible debentures emerged as required to be compulsorily convertible on a predetermined date.

III. The Capital Issues Control Act was struck down.

Select the correct sequence.

(A) I, II, III

(B) II, I, III

(C) II, III, I

(D) III, II, I

May/June 2016

48. According to SEBI guidelines, a conversion term for debentures that is longer than 36 months will not be approved unless the conversion duration is made optional with:

(A) "step-up" and "step-down" features.

(B) "put" and "call" options.

(C) "cumulative" and "participating" rights.

(D) "mortgage" and "hypothecation" charges.

Oct/Nov 2013

49. Which of the following statements is incorrect regarding Fully or Partially Convertible Debentures under SEBI guidelines?

(A) The conversion premium and timing of conversion must be determined and reported in the prospectus.

(B) Fully convertible debentures having a conversion time longer than 18 months are exempt from credit rating requirements.

(C) If conversion takes place after 18 months but before 36 months, the holder has the option to convert partially or fully.

(D) A conversion term longer than 36 months requires "put" and "call" options to be approved.

May/June 2008

50. Consider the following forms of convertible debentures that can be issued in India according to SEBI guidelines:

I. Debentures automatically convertible taking effect after 18 months.

II. Debentures with an optional conversion feature allowing conversion within 36 months.

III. Debentures allowing conversion after 36 months with "call" and "put" features.

IV. Debentures with perpetual maturity and no conversion options.

Which combination correctly identifies the valid forms?

(A) I, II, and III

(B) II, III, and IV

(C) I, III, and IV

(D) I, II, III, and IV

Oct/Nov 2008

51. An investor holds a partially convertible debenture where conversion takes place at 24 months from the date of allotment. According to regulations, what specific right must the investor have during this time period?

(A) The right to force immediate bankruptcy if the share price drops.

(B) The obligation to accept only a monetary compensation instead of equity.

(C) The option to convert either partially or fully.

(D) The right to detach the debenture and the option into separate tradeable securities.

May/June 2012

52. Consider the following statements regarding the distinctions between warrants and convertible debentures:

I. The vast majority of convertibles have a call provision, whereas warrants usually cannot be cancelled.

II. Compared to warrants, convertibles often have less time until they expire.

Which of the statement(s) is/are correct?

(A) Only I

(B) Only II

(C) Both I and II

(D) Neither I nor II

Oct/Nov 2012

53. Match the characteristics in List I with the security types in List II and select the correct option.

List I: (Characteristic)

P. Can normally be exercised for monetary compensation

Q. Results in just an accounting transfer upon conversion

R. Leads to the injection of additional capital

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upon exercise
S. The debenture and option cannot be separated from one another

List II: (Security Type)
1. Convertible Debenture
2. Warrant
3. Warrant
4. Convertible Debenture

(A) P-2, Q-1, R-3, S-4
(B) P-1, Q-2, R-4, S-3
(C) P-3, Q-4, R-2, S-1
(D) P-4, Q-3, R-1, S-2

May/June 2025

54. An investor decides to execute the rights on their hybrid securities. For Security A, it results in the injection of additional capital into the company. For Security B, it results merely in an accounting transfer. What are Security A and Security B respectively?
(A) Security A is a convertible debenture, and Security B is a warrant.
(B) Security A is a warrant, and Security B is a convertible debenture.
(C) Security A is a PNCPS, and Security B is a plain vanilla bond.
(D) Security A is an ECB, and Security B is an RDB.

Oct/Nov 2022

55. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): The option in a convertible debenture cannot be separated from the debenture, whereas a warrant issued as an attachment to a debenture can be removed at any time.
Reason (R): Warrants have the ability to be issued on their own and do not have to be associated with any other instrument.
Which of the following is correct?
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2022

56. When evaluating the theoretical boundaries of a warrant's price, what determines the maximum value that a warrant can have?
(A) The current stock price itself.
(B) The risk-free interest rate multiplied by the remaining time.
(C) The exercise price minus the continuous discounting principle.
(D) The cumulative distribution function of the standard normal distribution.

Oct/Nov 2017

57. Consider the following variables that have an effect on the gap between the current market price of the warrant and its minimum acceptable level:
I. The fluctuation in the prices of the stocks
II. Remaining time before expiration
III. Risk Free interest rate
IV. The Value of the Stock
V. Exercise Price
Which combination of variables is utilized in this evaluation?
(A) I, II, III, and IV
(B) II, III, IV, and V
(C) I, III, IV, and V
(D) I, II, III, IV, and V

May/June 2006

58. Arrange the steps involved in applying the Black Scholes Model in chronological order:
I. Plug the numbers obtained into the Black Scholes Formula.
II. Calculate d1 and d2.
III. Estimate the present value of the exercise price using the continuous discounting principle.
IV. Find N(d1) and N(d2) from Probability Tables.
Select the correct sequence.
(A) II, IV, III, I
(B) II, III, IV, I
(C) IV, II, III, I
(D) III, II, I, IV

Oct/Nov 2005

59. Match the variables of the Black Scholes formula in List I with their standard notations in List II and select the correct option.
List I: (Variable)
P. Current stock price

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Q. Exercise Price
R. Time to expiration
S. Annual Standard Deviation
List II: (Notation)
1. E
2. t
3. So
4. σ (sigma)
(B) P-3, Q-1, R-2, S-4
(B) P-3, Q-1, R-2, S-4
(B) P-2, Q-3, R-4, S-1
(B) P-2, Q-3, R-4, S-1

May/June 2005

60. Using the continuous discounting principle, what is the estimated present value of the exercise price if the Exercise Price (E) is Rs. 100, the Risk free Interest Rate (r) is 8% (0.08), the Time to expiration (t) is 6 months (0.50), and the calculation formula is $E/e^{(rt)}$ (where $e^{0.04} = 1.0408$)?
(A) Rs. 104.08
(B) Rs. 100.00
(C) Rs. 96.08
(D) Rs. 31.86

Oct/Nov 2025

61. Consider the application of the Black Scholes model to assess the value of a warrant. Which of the following complexities are typically disregarded when using this approach?
I. Dividends
II. Dilution
III. Fluctuation in stock prices
IV. Strike price
Which combination of the above is correct?
(A) I and II
(B) II and III
(C) III and IV
(D) I and IV

May/June 2011

62. Which of the following is the correct statement regarding the value of a partially convertible debenture?
(A) Value relies entirely on the probability of the company entering formal liquidation.
(B) Value is comprised solely of the equity shares received during the conversion process.
(C) Value strictly excludes the required rate of return on the specific debt component.
(D) Value is a function of interest, conversion equity, and non-convertible principal.

Oct/Nov 2007

63. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): In the formula for the cost of a partially convertible debenture, the variable NSo represents the net subscription price realised at the time of issue.
Reason (R): NSo must be equated against the discounted future outflows including interest, equity share net realizable value, and principal repayments to find the discount rate (rc).
Which of the following is correct?
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2017

64. What is the definition of the Conversion Ratio (CR)?
(A) The percentage of debentures retained as a contingent liability on books.
(B) The number of shares obtained for one debenture upon conversion.
(C) The ratio of debt to equity optimized in the company's capital structure.
(D) The price per share that the holder pays when the conversion takes place.

Oct/Nov 2019

65. A company issues convertible debentures at a par value of 100 rupees each. The holder can convert one debenture into five equity shares prior to maturity. What is the conversion price (P)?
(A) Rs. 5
(B) Rs. 20
(C) Rs. 100
(D) Rs. 500

May/June 2010

66. Consider the following customary clauses associated with the conversion price at the time of issuance:

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III. The value of the option
IV. The value of the agency cost
V. The value of the contingent liability

Which combination of the above statement(s) is/are correct?

(A) I, II, and III
(B) II, III, and IV
(C) I, III, and V
(D) III, IV, and V

Oct/Nov 2011

95. Consider the following conditions that a Perpetual Non-Cumulative Preference Share (PNCPS) must meet to qualify for inclusion in Additional Tier 1 Capital:

I. Instruments should be issued by the bank and fully paid up.
II. PNCPS cannot exceed 1.5% of risk-weighted assets.
III. PNCPS have no maturity date, step-ups, or other redemption incentives.
IV. Principal may be repaid only with prior approval of RBI.
V. Neither the bank nor a related party should purchase PNCPS.

Which combination of statement(s) is/are correct?

(A) I, II, III, and IV
(B) I, III, IV, and V
(C) II, III, IV, and V
(D) I, II, III, IV, and V

May/June 2009

96. Match the variables from the formula calculating the value of a partially convertible debenture in List I with their meaning in List II and select the correct option.

List I: (Variable)

P. I_t
Q. P_i
R. F_j
S. K_d

List II: (Meaning)

1. Expected price for equity share at the end of period i
2. Instalment of principal repayment at the end of period j
3. Interest receivable at the end of period t
4. Investor's required rate of return on the debt component

(A) P-3, Q-1, R-2, S-4
(B) P-2, Q-1, R-4, S-3
(C) P-4, Q-1, R-3, S-2
(D) P-4, Q-2, R-3, S-1

Oct/Nov 2020

97. Match the mathematical operations and terms used in the Black Scholes Model in List I with their descriptions in List II and select the correct option.

List I: (Operation/Term)

P. Log_n
Q. N
R. NORM.DIST
S. EXP and LN

List II: (Description)

1. Cumulative Distribution Function of the standard normal distribution
2. A mathematical operation for which Natural Log tables are available
3. Excel functions used for computing the values
4. An Excel function representing the normal distribution

(A) P-2, Q-4, R-1, S-3
(B) P-2, Q-1, R-4, S-3
(C) P-4, Q-1, R-3, S-2
(D) P-3, Q-2, R-4, S-1

May/June 2013

98. Match the issuers in List I with the dates of their financial actions in List II and select the correct option.

List I: (Issuer)

P. Tata Iron and Steel Company (TISCO)
Q. AB Limited
R. Man Industries (India) Ltd.
S. British firm Carlton

List II: (Date/Year)

1. November 2020
2. June 1989
3. 1992
4. January 2016

(A) P-2, Q-4, R-1, S-3
(B) P-2, Q-1, R-4, S-3
(C) P-4, Q-1, R-3, S-2
(D) P-4, Q-2, R-3, S-1

Oct/Nov 2007

99. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).

Assertion (A): Mezzanine financing can provide higher returns to investors compared to normal

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exclusively by local tax authorities.

Oct/Nov 2020

73. Which of the following statements regarding the risks of FCCBs is incorrect?
(A) Holders are exposed to both exchange rate risk and underlying credit risk.
(B) Adverse exchange movements can outweigh the interest savings for the issuer.
(C) It isolates the issuer from all political, economic, and legal risks.
(D) Repayment of the principal at maturity will fail if the company goes bankrupt.

May/June 2014

74. An FCCB issued by a corporation includes features allowing early redemption. If the right of early redemption lies with the bond issuer, and conversely lies with the bondholder, what are these options called respectively?
(A) Call option for the issuer, Put option for the bondholder
(B) Put option for the issuer, Call option for the bondholder
(C) Step-up option for the issuer, Step-down option for the bondholder
(D) Accumulation option for the issuer, Participation option for the bondholder

Oct/Nov 2014

75. A company issues FCCBs. Which of the following is NOT typically a risk associated with these instruments?
(A) Exchange rate risk
(B) Political, economic, and legal risks
(C) Credit risk and bankruptcy risk
(D) Exemption from taxation in the hands of all global investors

May/June 2024

76. Consider the following statements regarding Mezzanine Financing:
I. It is a hybrid type of debt and equity financing that gives the lender the right to convert the debt into equity in case of default.
II. It is always a fully secured debt that matures in exactly one year.
Which of the statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2023

77. Which of the following most appropriately describes the cost profile of Mezzanine Financing for the issuing company?
(A) It is cheaper than normal debt instruments but more expensive than equity capital.
(B) It carries no cost as it consists entirely of zero-coupon notes.
(C) It is considered very expensive debt or cheaper equity.
(D) Its cost is strictly tied to the dividends declared on cumulative preference shares.

May/June 2020

78. A company is looking to raise funds for a specific project and finance an acquisition. It is willing to offer an unsecured debt structure with partially fixed and partially variable interest rates, maturing in more than five years. Which financial instrument fits this scenario?
(A) Foreign Currency Convertible Bond
(B) Perpetual Non-Cumulative Preference Share
(C) Standard Plain Vanilla Bond
(D) Mezzanine Financing

Oct/Nov 2021

79. Consider the following characteristics of Mezzanine Financing:
I. Normally used for raising funds for specific projects or financing an acquisition.
II. Provides higher returns to investors compared to normal debt instruments.
III. Often structured as an unsecured debt.
IV. Typically matures in less than one year.
Which of the statement(s) is/are correct?
(A) I, II, and III
(B) II, III, and IV
(C) I, III, and IV
(D) I, II, III, and IV

May/June 2007

80. How is the formation of an "Innovative Hybrid" security conceptualised?
(A) Combining two separate domestic equity shares without any debt component.
(B) Combining conventional securities with over-the-counter derivatives.
(C) Removing all options and warrants from a standard corporate debenture.

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ANSWERS

1. (B) A single instrument combining the characteristics of both debt and equity.
A hybrid security is a specialized financial instrument that integrates features of both equity and debt. These instruments often provide the fixed income typical of bonds while offering potential appreciation or conversion rights similar to stocks. They allow issuers to customize capital structures, balancing fixed financial obligations with the flexibility of ownership-like claims to optimize overall corporate funding costs.

2. (A) It allows companies to optimise the proportion of debt to equity in their overall capital structure.
Companies increasingly utilize hybrid securities to fine-tune their capital structures, balancing the benefits of debt with the flexibility of equity. By blending these elements, firms can manage leverage more effectively and potentially lower their weighted average cost of capital. This strategic approach helps organizations maintain financial stability while meeting specific funding requirements in diverse and fluctuating market environments.

3. (C) Debt is often related to managerial control and reflects a residual claim on assets.
Traditional debt represents a fixed claim on a company's cash flows and assets, requiring regular interest payments. Unlike equity, which grants managerial control and a residual claim on assets after all liabilities are met, debt holders generally do not participate in corporate governance. Therefore, attributing managerial authority and residual claims to debt instruments is fundamentally incorrect in corporate finance.

4. (D) The owner has the ability to buy a specific number of equity shares at a fixed price for a limited time.
A warrant is a derivative financial instrument that grants the holder the specific right, but not the obligation, to purchase a designated number of equity shares. This transaction occurs at a predetermined price, known as the exercise price, within a set timeframe. Warrants offer potential gains if the market price of the underlying stock exceeds the fixed exercise price.

5. (C) 95.02%
Statistical analysis of capital raising between January 2021 and September 2022 reveals the dominance of External Commercial Borrowings in corporate funding. While instruments like Rupee Denominated Bonds and Foreign Currency Convertible Bonds provided supplementary capital, External Commercial Borrowings accounted for an overwhelming 95.02% share. This highlights the significant reliance of Indian corporations on international debt markets for large-scale financing.

6. (B) 67194.34
Calculating the aggregate capital raised involves summing the contributions from various debt vehicles used by Indian corporations. In the specified period, the combined value from 1516 External Commercial Borrowing cases, 33 Rupee Denominated Bond cases, and 3 Foreign Currency Convertible Bond cases reached 67194.34 million USD. This figure represents the total volume of international capital inflow through these hybrid and debt instruments.

7. (D) Calculation of return on hybrid securities is simpler than on equity or bond securities.
Hybrid securities offer unique benefits, including potentially higher returns than straight debt and lower price volatility due to fixed payouts. They also help issuers diversify risk by blending different financial characteristics. However, their complex nature, involving both debt and equity features, makes the calculation of their returns significantly more complicated than standard stocks or traditional bond instruments.

8. (A) Returns are not as straightforward to calculate as standard equity or debt.
Investing in hybrid securities involves navigating complex financial structures that combine elements of fixed income and variable equity. Because these instruments often feature conversion options, call or put provisions, and

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Oct/Nov 2015

87. The collared FRN structure issued by Leeds Permanent Building Society had a specific minimum and maximum interest rate. What were the floor and cap rates provided to investors?
(A) Floor of 6% and Cap of 10%
(B) Floor of 7% and Cap of 11%
(C) Floor of 5% and Cap of 9%
(D) Floor of 8% and Cap of 12%

May/June 2023

88. In 1988, manufacturing company Hanover issued a floating rate, rating sensitive note to lessen disagreements between bondholders and stockholders. How did the payment commitment function?
(A) A spread above Libor that increases as the debt rating drops.
(B) A fixed dividend payment that remains stable regardless of rating.
(C) A spread below Libor that decreases as the debt rating improves.
(D) An immediate conversion into common stock upon any rating change.

Oct/Nov 2022

89. Sperry Corporation issued a US$56 million dual currency bond in February 1985 to manage foreign exchange risks. How were the interest and principal structured in terms of currencies?
(A) Interest payable annually in Swiss francs, principal equal to dollars.
(B) Both interest and principal payable in Swiss francs.
(C) Interest payable annually in dollars, principal equal to Swiss francs.
(D) Both interest and principal payable in dollars, but indexed to the Deutschemark.

May/June 2008

90. Consider the following statements regarding the emergence of exotic hybrid securities:
I. Some perspectives assert that hybrids are primarily a supply-driven phenomenon pushed by investment bankers.
II. Other perspectives argue that these securities represent useful capital market innovations serving the needs of issuers and investors more effectively.
Which of the statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2008

91. Which of the following is NOT one of the primary economic factors attributed to the widespread adoption of hybrids?
(A) They contribute to the overall completion of the financial market.
(B) They offer unique payoff structures not available in other securities.
(C) They provide a significant benefit in terms of corporate taxation.
(D) They automatically eliminate all agency costs without conversion.

May/June 2012

92. Which of the following is the best, most comprehensive explanation for why convertible debentures and debentures with warrants are frequently utilized?
(A) Guaranteed immunity from exchange risks and commodity price shifts.
(B) Improved cash flow matching, synergy, and fewer agency problems.
(C) Bypassing all regulatory guidelines and credit rating requirements.
(D) Avoiding the payment of upfront amounts during preferential allotments.

Oct/Nov 2012

93. Consider the dimensions along which the characteristics associated with preference shares can vary:
I. The ability to accumulate dividends.
II. The opportunity to participate in surplus profits.
III. The ability to be redeemed, fallible, or convertible.
Which of the statement(s) is/are correct?
(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

May/June 2011

94. For the purposes of analysis, the value of the debenture-warrant package is determined by a function of which of the following factors?
I. The value of the straight debenture
II. The value of the conversion

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(D) Relying solely on the issuance of fully paid bonus securities for capital.

Oct/Nov 2018

81. Match the illustrations of Innovative Hybrids in List I with their specific case examples in List II and select the correct option.

List I: (Innovative Hybrid Illustration)

P. Convertible Bearer Form Bond
Q. Risk management strategy for commodities
R. Managing foreign exchange risks
S. Mitigating Interest rate Risk

List II: (Case Example)

1. Sperry Corporation dual currency bond
2. Standard Oil of Ohio oil-linked bond
3. Collared Floating Rate Notes (FRNs) by Leeds Permanent Building Society
4. British firm Carlton subordinated issuance

(A) P-4, Q-2, R-1, S-3
(B) P-1, Q-3, R-4, S-2
(C) P-3, Q-1, R-2, S-4
(D) P-2, Q-4, R-3, S-1

May/June 2021

82. In 1992, the British firm Carlton issued a bearer form convertible Eurobond amounting to £64.25 million. What was the specific advantage in the coupon rate compared to straight Eurobonds issued at the time?

(A) A coupon of 7.5%, significantly lower than straight Eurobonds.
(B) A coupon exactly equal to the prevailing LIBOR rate at issuance.
(C) A zero-coupon structure that doubles the face value at maturity.
(D) A floating rate coupon with a minimum floor of eleven percent.

Oct/Nov 2016

83. The Standard Oil of Ohio Company issued an oil-linked bond in 1986. The bearer of each $1,000 note received face value plus the excess of crude oil price over $25 multiplied by 200 barrels, with an upper bound of $40. If the price of crude oil at maturity was $45, what is the total highest amount an investor could receive?

(A) $1,000
(B) $3,000
(C) $4,000
(D) $5,000

May/June 2016

84. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).

Assertion (A): Commencing on April 1, 1991, each Standard Oil note holder had the opportunity to redeem their respective note prior to its maturity.

Reason (R): This early redemption opportunity was available strictly on the first and fifteenth of each month, subject to outlined terms.

Which of the following is correct?

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2009

85. Match the Innovative Hybrid design objectives in List I with their respective issuers in List II and select the correct option.

List I: (Design Objective)

P. Lessen likelihood of disagreements between bondholders and stockholders
Q. Manage foreign exchange risks
R. Mitigate Interest rate Risk
S. Risk management strategy for commodities

List II: (Issuer)

1. Salomon Brothers / Leeds Permanent Building Society
2. Manufacturing company Hanover
3. Standard Oil of Ohio Company
4. Sperry Corporation

(A) P-2, Q-4, R-1, S-3
(B) P-1, Q-3, R-2, S-4
(C) P-4, Q-1, R-3, S-2
(D) P-3, Q-2, R-4, S-1

May/June 2018

86. Identify the incorrect pair regarding the issuance of innovative hybrids.

(A) Carlton - Convertible Bearer Form Bond
(B) Sperry Corporation - Rating sensitive floating rate note
(C) Standard Oil of Ohio - Oil-linked bond
(D) Leeds Permanent Building Society - Collared Floating Rate Notes

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debt instruments.
Reason (R): It is typically a secured debt that guarantees fixed interest rates without any conversion rights.
Which of the following is correct?
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2010

100. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): If the issuing company of a Foreign Currency Convertible Bond (FCCB) goes bankrupt, the repayment of the principal at maturity will not be made.
Reason (R): Holders of Foreign Currency Convertible Bonds are exposed to credit risk in addition to exchange rate risk.
Which of the following is correct?
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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I. It is established at a level that is around 20-30 percent higher than the current market price.
II. It remains unchanged during the duration of the debenture.
III. It provides protection against dilution caused by bonus issuance, stock splits, and sale of equity shares at lower prices.

Which of the statement(s) is/are correct?
(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

Oct/Nov 2010

67. Which of the following best describes the "Conventional Explanations" for issuing warrants and convertible debentures?
(A) Improving cash flow matching while alleviating persistent agency difficulties.
(B) Resolving disputes between equity owners and debt holders over risk assessments.
(C) Inexpensive debt issuance with the potential for a future equity premium.
(D) Linking security rewards to general economic variables like exchange rates.

May/June 2015

68. Identify the correct pair representing the core components of the "Modern Finance Explanation" for the popularity of convertible debentures.
(A) Managing foreign exchange risks and mitigating various interest rate risks.
(B) Providing higher yields and ensuring less volatile market prices for investors.
(C) Eliminating the requirement for credit ratings from nationally recognised agencies.
(D) Cash flow matching, financial synergy, and agency cost alleviation.

Oct/Nov 2024

69. A developing but risky company opts to issue debentures with warrants because of the low initial interest burden. If successful, investors will convert their investment, resulting in pricey dilution when the company is in a position to pay for it. Which modern finance concept does this scenario illustrate?
(A) Agency Cost
(B) Financial Synergy
(C) Matching of Cash Flows
(D) Risk Diversification

May/June 2019

70. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): Convertible debentures offer protection against inaccurate risk assessments because the straight debenture component and the call option component have a compensatory effect on one another.
Reason (R): If a corporation is high risk, the debenture component has a high value while the call option component has a low value.
Which of the following is correct?
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2006

71. Equity investors typically want a company to take on high-risk initiatives, whereas debt holders set restrictions to reduce default risk. Which of the following is the most appropriate financial instrument to provide a solution to this dispute that is acceptable to all parties?
(A) Plain vanilla bonds that offer fixed interest payments until maturity.
(B) Floating rate notes strictly pegged to the prevailing LIBOR benchmarks.
(C) Irredeemable preference shares that do not carry any specific voting rights.
(D) Convertible debentures or debentures issued with attached warrants.

May/June 2013

72. What distinguishes a Foreign Currency Convertible Bond (FCCB) from a straight coupon-bearing plain vanilla bond issued domestically?
(A) Foreign currency issuance with lower coupons and exchange rate risk.
(B) Domestic currency issuance with higher coupons and zero conversion options.
(C) Mandatory principal repayment in equity shares regardless of investor choice.
(D) Purely domestic instruments regulated

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variable dividend structures, determining their total return requires more sophisticated analysis. This complexity makes them less straightforward for investors compared to calculating yields on plain vanilla bonds or common stocks.

9. (C) Preference shares that do not have a maturity date.
Perpetual or irredeemable preference shares are unique equity instruments that lack a fixed date for the repayment of principal. Unlike redeemable shares, which must be bought back by the issuing company after a specified period, these shares remain part of the capital structure indefinitely. They continue to pay dividends for as long as the company remains in operation.

10. (A) CRISIL and ICRA
Credit Rating Agencies play a vital role in the financial ecosystem by assessing the creditworthiness of debt issuers. In the Indian market, CRISIL and ICRA are among the leading and nationally recognized agencies that provide independent evaluations of various financial instruments. Their ratings help investors gauge the risk levels associated with corporate bonds, debentures, and other debt-based securities.

11. (C) Both I and II
Under Section 43 of the Companies Act, 2013, preference share capital is defined by specific priority rights. These shares entitle holders to receive dividends before any distributions are made to equity shareholders. Additionally, in the event of a company winding up, preference shareholders have a superior claim over equity holders for the repayment of the paid-up capital they invested.

12. (C) Two years or more
While preference shareholders typically do not have general voting rights, Section 47 of the Companies Act, 2013, provides an exception for unpaid dividends. If a company fails to pay dividends on preference shares for a period of two years or more, those shareholders gain the right to vote on all resolutions presented before the company's general body.

13. (A) I and II
Section 55 of the Companies Act, 2013, prohibits Indian companies from issuing irredeemable preference shares, requiring all such capital to be redeemable. Generally, these shares must be redeemed within twenty years of issuance. An exception exists for infrastructure projects, which are permitted to issue preference shares with a redemption period exceeding twenty years, subject to specific conditions.

NODIA

14. (D) Indian companies are permitted to issue irredeemable preference shares if they are highly rated.
Legal regulations in India, specifically the Companies Act, 2013, strictly forbid the issuance of irredeemable preference shares by any company. All preference capital must have a defined redemption period, generally capped at twenty years, though infrastructure projects have longer allowances. While preference shareholders enjoy higher priority over equity holders, they cannot hold perpetual shares regardless of the company's rating.

15. (C) Assertion (A) is true, but Reason (R) is false.
Preference shareholders hold a priority claim over equity shareholders during a company's liquidation, ensuring they are repaid their capital and any arrears before residual owners receive anything. However, unlike bondholders, preference shareholders do not have a legal standing as creditors and cannot force a company into bankruptcy for failing to pay dividends, as dividends are discretionary.

16. (A) P-2, Q-4, R-3, S-1
Different classes of preference shares offer varying rights regarding dividends and surplus profits. Cumulative shares allow unpaid dividends to accumulate as contingent liabilities, while non-cumulative shares lose dividend rights if not declared. Participating shares provide a claim on surplus profits remaining after equity payouts, whereas non-participating shares are limited to a fixed rate of dividend without further rights.

17. (B) A share that holds the right to a definite sum of dividend that continues to accumulate unless completely paid out.
A cumulative preference share ensures that if a company is unable to pay its fixed dividend in a given year due to insufficient profits, the unpaid amount carries forward to future periods. These arrears must be cleared in full before any

debenture is inseparable from the debt, unlike detachable warrants.

54. (B) Security A is a warrant, and Security B is a convertible debenture.
When a warrant is exercised, the investor pays the exercise price to the company, resulting in an inflow of fresh capital. In contrast, when a convertible debenture is converted, the company simply reclassifies the existing debt liability as equity capital on its balance sheet. This distinction makes warrants a capital-raising tool and convertibles a debt-reduction tool.

55. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
The conversion feature of a debenture is intrinsically linked to the bond itself and cannot be traded separately. In contrast, warrants can be issued as independent instruments or as detachable attachments to other securities. While both statements are factually true regarding the nature of these instruments, the independence of warrants doesn't directly explain why debenture options are inseparable.

56. (A) The current stock price itself.
Theoretically, a warrant grants the right to buy a share of stock. Therefore, it can never be worth more than the stock itself. If a warrant were more expensive than the underlying share, an investor would simply buy the share directly. Thus, the current market price of the stock acts as the absolute upper boundary for the warrant's value.

57. (D) I, II, III, IV, and V
The market value of a warrant is influenced by several interrelated factors. These include the current price of the underlying stock, the fixed exercise price, the remaining time until the warrant expires, the volatility of the stock price, and the prevailing risk-free interest rate. All these variables together determine the premium or gap over the warrant's minimum value.

58. (A) II, IV, III, I
Applying the Black Scholes Model involves a logical sequence of mathematical steps. First, one calculates the intermediate d1 and d2 values using input variables. Next, the corresponding normal distribution probabilities, N(d1) and N(d2), are identified. The present value of the exercise price is then determined using continuous discounting. Finally, all these components are integrated into the main formula to find the warrant's value.

59. (B) P-3, Q-1, R-2, S-4
The Black Scholes formula uses standardized notations to represent different financial inputs. The current stock price is denoted as S0, while the exercise or strike price is represented by E. Time to expiration is marked as t, and the volatility or annual standard deviation of the stock's returns is indicated by the Greek letter sigma (σ).

60. (C) Rs. 96.08
To find the present value using the continuous discounting principle, the formula E / e^{rt} is used. Given an exercise price of 100, a rate of 8%, and a time of 0.5 years, the exponent is 0.04. Dividing 100 by the value of $e^{0.04}$ (which is 1.0408) results in approximately 96.08. This represents the discounted value of the strike price.

61. (A) I and II
The basic Black Scholes model simplifies reality by assuming that the underlying stock does not pay dividends during the life of the option. Additionally, when applied to warrants, it typically ignores the dilution effect that occurs when new shares are issued upon exercise. While volatility and strike price are core components of the model, dividends and dilution are standard omissions.

62. (D) Value is a function of interest, conversion equity, and non-convertible principal.
A partially convertible debenture is a multi-component instrument. Its total value is derived from the present value of periodic interest payments, the value of the equity shares obtained from the convertible portion, and the eventual repayment of the non-convertible principal. Investors must evaluate each of these cash flow streams to determine the instrument's fair market price.

63. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
In financial modeling, NSo represents the net cash inflow the company receives when issuing the debenture. To determine the internal rate of

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creditors, the law mandates that this balance can only be utilized for the issuance of fully paid-up bonus shares to the members.

27. (C) Both I and II
Redeeming preference shares requires maintaining the integrity of the company's total shareholder funds. When a company issues new shares to fund the redemption, the capital base is directly replenished. Conversely, when using distributable profits, the company must transfer an equivalent amount to the Capital Redemption Reserve, which indirectly keeps the nominal value of the capital intact for outsiders.

28. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Divisible profits, which are normally available for dividend distribution, lose that status once transferred to the Capital Redemption Reserve. This legal requirement ensures that the funds used for redemption are replaced by a non-distributable capital reserve. This reserve can only be used for bonus shares, effectively locking the capital within the company to protect the interests of external creditors.

29. (C) The firm transfers the retained profits to the Capital Redemption Reserve Account.
To safeguard creditors when preference shares are redeemed using internal profits, the law requires the company to substitute the redeemed capital. This is achieved by transferring an amount equal to the nominal value of the shares from the profit and loss account to the Capital Redemption Reserve. This accounting entry prevents the reduction of the firm's total capital base.

30. (A) They cannot exceed 1.5% of risk-weighted assets.
Under Basel III regulatory frameworks implemented for Indian banks, Perpetual Non-Cumulative Preference Shares serve as a component of Additional Tier 1 Capital. To ensure the quality of the bank's capital base, the total amount of these instruments qualifying for Additional Tier 1 status is capped at 1.5% of the bank's total risk-weighted assets.

31. (A) I, II, IV, and V
For PNCPS to qualify as Additional Tier 1 Capital, they must be fully paid-up and lack any maturity date or step-up incentives. While excess PNCPS can sometimes be counted toward Tier 2 capital, the key requirements include prior regulatory approval for principal repayment and the prohibition of the bank or its related parties from purchasing the issued instruments.

32. (B) Each NRI investor is limited to 15%.
Regulations governing the issuance of PNCPS specify clear investment limits for different classes of foreign investors. Foreign Institutional Investors can collectively hold up to 49% of an issue, with individual limits capped at 10%. For Non-Resident Indians, the aggregate limit is 24%, but individual NRI investors are restricted to 5% of the issue, making the 15% claim incorrect.

33. (B) The bank replaces the instrument with capital of equal or higher quality.
Banks can only exercise a call option on PNCPS with prior approval from the Reserve Bank of India and under strict conditions. A primary requirement is that the bank must replace the redeemed instrument with capital of equivalent or superior quality, such as common equity. This ensures that the bank's total regulatory capital remains robust after the redemption.

34. (A) Either by converting to common shares or by writing down the instrument.
A fundamental feature of Perpetual Non-Cumulative Preference Shares is their ability to absorb losses while the bank is still a going concern. If the bank's capital falls below a pre-specified trigger point, these instruments must either be converted into common equity shares or be subject to a permanent or temporary write-down of their principal value.

35. (C) Superior to equity investors but subordinated to depositors and creditors.
In the event of an Indian bank's liquidation, the hierarchy of claims determines the order of repayment. Investors holding Perpetual Non-Cumulative Preference Shares occupy a middle ground. Their claims are subordinated to those of depositors, general creditors, and Tier 2 capital holders, but they retain a superior position

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73. (C) It isolates the issuer from all political, economic, and legal risks.
FCCBs involve significant risks, including exposure to exchange rate volatility and the underlying credit risk of the company. Issuers remain vulnerable to the broader political, economic, and legal environments of both the domestic and international markets. The idea that these bonds isolate the issuer from such external risks is completely false, as global factors directly impact repayment ability.

74. (A) Call option for the issuer, Put option for the bondholder
In the context of FCCBs, specific rights are granted for early termination of the contract. A call option allows the company to redeem the bonds before they mature, which is beneficial if interest rates fall. Conversely, a put option allows the bondholder to demand early repayment, providing protection if the company's credit quality or market conditions deteriorate.

75. (D) Exemption from taxation in the hands of all global investors
FCCBs carry multiple risks, such as exchange rate fluctuations that increase repayment costs and credit risks if the issuer faces insolvency. They are also subject to various macroeconomic and legal risks in international markets. However, these bonds are not universally exempt from taxation; tax treatment depends on the specific jurisdictions and treaties involved for each investor.

76. (A) Only I
Mezzanine financing is a hybrid funding layer that sits between senior debt and equity. It often includes an equity kicker, such as warrants or conversion rights, which the lender can exercise particularly in default scenarios. Unlike senior debt, it is typically unsecured and carries a longer maturity than one year, making the second statement regarding its security incorrect.

77. (C) It is considered very expensive debt or cheaper equity.
From a company's perspective, mezzanine financing occupies a unique cost position. It is more expensive than traditional senior bank debt because it is usually unsecured and subordinated. However, it is considered a cheaper alternative to issuing new common equity, as it avoids immediate and significant dilution of ownership while providing the necessary capital for growth or acquisitions.

78. (D) Mezzanine Financing
Mezzanine financing is frequently used for specific projects, acquisitions, or buyouts. Its structure is highly flexible, often featuring unsecured debt with a combination of fixed and variable interest components. Since it typically has a maturity period exceeding five years and bridges the gap between debt and equity, it perfectly fits the needs of companies seeking tailored expansion capital.

79. (A) I, II, and III
Mezzanine financing is characterized by its use in project funding and acquisitions, offering higher returns than senior debt to compensate for its unsecured and subordinated status. It serves as a flexible capital source with maturities usually ranging from five to ten years. Therefore, the suggestion that it typically matures in less than one year is incorrect in this context.

80. (B) Combining conventional securities with over-the-counter derivatives.
Innovative hybrid securities are created by embedding derivative instruments into traditional financial products. By combining standard bonds or shares with over-the-counter derivatives like swaps or options, issuers can create customized payoff structures. These innovations allow companies to manage specific risks, such as interest rate or commodity price fluctuations, more effectively than with plain vanilla securities alone.

81. (A) P-4, Q-2, R-1, S-3
Various firms have pioneered innovative hybrids to address specific financial needs. Carlton issued subordinated convertible bearer bonds, while Standard Oil of Ohio used oil-linked bonds to manage commodity risks. Sperry Corporation utilized dual-currency bonds for exchange rate management, and Leeds Permanent Building Society issued collared floating rate notes to protect against interest rate volatility in the market.

NODIA

to the company. This rule encourages serious investment and compensates the company for the reserved equity space.

45. (B) II and III
Warrants do not grant immediate voting or dividend rights; these privileges are only obtained once the holder exercises the warrant and converts it into equity shares. Companies often attach warrants to debt issues to make them more attractive to investors, providing a "sweetener" that offers potential equity upside in addition to regular interest payments.

46. (D) They both confer a call option on the equity stock of the corporation upon the holder of the security.
Warrants and convertible debentures are similar in that they both provide the holder with a call option on the company's common stock. This option allows the investor to benefit from future increases in the share price. While their accounting and capital injection methods differ, the fundamental economic benefit derived from the equity appreciation potential is a shared characteristic.

47. (B) II, I, III
The regulatory landscape for convertibles in India evolved significantly over time. Initially, convertible debentures were often subject to compulsory conversion requirements. This was followed by the passage of the SEBI Act in 1992, which modernized securities regulation. Subsequently, the restrictive Capital Issues Control Act was repealed, moving the market toward a more disclosure-based and market-driven pricing regime for hybrid instruments.

48. (B) "put" and "call" options.
SEBI guidelines aim to protect investors from excessively long lock-in periods in convertible instruments. If a company proposes a conversion timeframe exceeding 36 months, it must include "put" and "call" options. This allows the investor to exit the investment or the company to redeem the debt, providing liquidity and flexibility for these longer-duration hybrid securities.

49. (B) Fully convertible debentures having a conversion time longer than 18 months are exempt from credit rating requirements.
SEBI mandates strict transparency for convertible debentures, requiring the conversion premium and timing to be clearly stated in the prospectus. Instruments with long conversion periods are not exempt from oversight; in fact, any debenture issue typically requires a credit rating. The claim that issues exceeding 18 months are exempt from rating requirements is false under current regulatory standards.

50. (A) I, II, and III
In India, convertible debentures can take several valid forms, including those that convert automatically after 18 months or offer optional conversion within a 36-month window. For periods longer than 36 months, the inclusion of put and call options is required. However, perpetual maturity debentures with no conversion options do not fit the standard framework for convertible debentures.

51. (C) The option to convert either partially or fully.
For partially convertible debentures where conversion happens between 18 and 36 months, regulations ensure investor flexibility. The holder is granted the right to decide whether they wish to convert the convertible portion into equity or retain it. This option protects the investor by allowing them to assess the stock's performance before committing to an equity position.

52. (A) Only I
One major difference between these instruments is that most convertible debentures include a call provision allowing the company to force redemption or conversion. Warrants, however, generally cannot be cancelled by the issuer once they are in the hands of the holder. The assertion that convertibles have a shorter lifespan than warrants is not a universally correct characteristic.

53. (A) P-2, Q-1, R-3, S-4
Warrants and convertible debentures have distinct mechanics. Warrants can often be exercised for cash, leading to an injection of new capital. Conversely, the conversion of a debenture typically involves a simple accounting transfer from debt to equity without new cash. Additionally, the option in a convertible

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compared to the claims of common equity shareholders.

36. (B) No put option is allowed, but banks may issue with a future call option.
Regulatory guidelines for Additional Tier 1 Capital instruments like PNCPS prohibit the inclusion of put options, which would allow investors to force early redemption. However, the issuing bank is permitted to include a call option, enabling it to redeem the shares at a future date, provided it obtains prior regulatory approval and maintains its capital adequacy ratios.

37. (A) I and III
Banks maintain absolute discretion to cancel dividend distributions on PNCPS at any time, and these dividends are strictly non-cumulative, meaning cancelled payments are never recovered. Furthermore, the coupon rates on these instruments cannot be credit-sensitive, meaning they cannot increase if the bank's credit rating falls. Banks are also barred from lending against their own PNCPS.

38. (A) P-4, Q-3, R-1, S-2
Section 52 of the Companies Act, 2013, restricts the use of the securities premium account to specific purposes. These include issuing fully paid bonus shares, writing off preliminary expenses, and covering commissions or discounts on debenture issues. Additionally, the account can be utilized to provide for the premium payable on the redemption of preference shares or debentures.

39. (D) All companies are universally barred from using the securities premium account for the purchase of their own shares.
Section 133 of the Companies Act provides specific accounting standards that certain companies must follow. These companies face tighter restrictions on the use of their securities premium account, particularly regarding writing off preliminary expenses and redemption premiums. However, the Act generally allows companies to use the premium for the buy-back of their own shares under Section 68.

40. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
When a company issues fresh shares at a premium to fund the redemption of preference shares, the accounting treatment must align with legal guidelines. While Section 52 defines the permissible applications of the securities premium account, the specific challenge of using premium from a new issue for a concurrent redemption is a separate technical accounting consideration rather than a direct consequence of Section 52.

41. (B) 25%
Under Indian regulations for preferential allotments, specifically those governed by SEBI, any entity purchasing warrants must provide an upfront commitment. The buyer is required to pay 25% of the total price of the warrants at the time of allotment. This upfront payment serves as a financial guarantee that the investor intends to convert the warrants into equity.

NODIA

42. (A) The right to buy equity shares at a fixed price within a specific timeframe.
A warrant is a financial instrument that grants its holder the right to purchase a specific number of common shares directly from the issuing company. This purchase occurs at a predetermined price and remains valid until a certain expiration date. Unlike options, warrants are issued by the corporation itself and result in new capital when exercised.

43. (B) The six-month or two-week average of high and low closing prices.
To ensure fairness for minority shareholders, SEBI mandates a formula for pricing preferential allotments of warrants. The conversion price must not be lower than the higher of two averages: the average of the weekly high and low closing prices over the preceding six months, or the average over the preceding two weeks before the relevant date.

44. (B) The entire upfront payment is forfeited.
When warrants are issued on a preferential basis, the initial 25% payment made by the investor is non-refundable. If the investor chooses not to exercise the warrants within the stipulated timeframe, the entire upfront amount is forfeited

return or cost for the company, this initial inflow is equated to the discounted value of all future outflows. These outflows include interest, the value of equity shares issued upon conversion, and the final redemption of the debt.

64. (B) The number of shares obtained for one debenture upon conversion.
The conversion ratio is a fundamental term in hybrid securities that specifies the exact number of common equity shares an investor receives for each convertible debenture they hold. For instance, a conversion ratio of 10 means the holder can exchange one debenture for ten shares. This ratio determines the potential equity stake the investor can acquire.

65. (B) Rs. 20
The conversion price is the effective cost per share when a debenture is converted into equity. It is calculated by dividing the par value of the debenture by the conversion ratio. If a 100-rupee debenture can be converted into five equity shares, the conversion price is 100 divided by 5, which equals 20 rupees per share.

66. (D) I, II, and III
Conversion prices are typically set above the current market price to prevent immediate dilution. They usually remain fixed throughout the debenture's life, though they often include anti-dilution clauses. These clauses protect investors by adjusting the conversion price if the company issues bonus shares, undergoes a stock split, or sells new equity at a price below the established conversion level.

67. (C) Inexpensive debt issuance with the potential for a future equity premium.
Historically, companies issued convertibles based on the idea of obtaining "cheap" debt. Because these instruments offer a potential equity upside, investors are willing to accept a lower interest rate than they would for straight debt. This allows firms to borrow at a lower cost today while potentially issuing equity later at a premium over current market prices.

68. (D) Cash flow matching, financial synergy, and agency cost alleviation.
Modern financial theory explains the popularity of hybrid securities through three main lenses. Cash flow matching allows risky firms to keep initial interest payments low. Financial synergy helps bridge valuation gaps between managers and investors. Finally, these instruments alleviate agency costs by aligning the interests of debt holders and equity owners, reducing potential conflicts over high-risk corporate projects.

69. (C) Matching of Cash Flows
The concept of cash flow matching is illustrated when a high-growth, high-risk company issues convertibles. By offering an equity option, the firm can pay a lower interest rate during its early stages when cash is tight. If the firm succeeds, the resulting equity dilution occurs exactly when the company is most capable of absorbing the cost of that capital.

70. (C) Assertion (A) is true, but Reason (R) is false.
Convertible debentures help mitigate risk assessment errors because their two components react differently to risk. As corporate risk increases, the value of the straight debt component typically falls. However, the value of the call option component usually rises because options benefit from higher volatility. The claim that the debenture value remains high while the option value falls is incorrect.

71. (D) Convertible debentures or debentures issued with attached warrants.
Conflicts arise because equity holders favor high-risk projects while debt holders prefer safety. Convertible debentures or warrants resolve this by giving debt holders a share in the potential upside of risky ventures. This participation aligns the incentives of both parties, making creditors more willing to accept corporate risk in exchange for the possibility of significant equity gains.

72. (A) Foreign currency issuance with lower coupons and exchange rate risk.
Foreign Currency Convertible Bonds are hybrid instruments issued in a currency different from the issuer's domestic currency. They typically carry a lower interest rate than straight domestic bonds because they include a conversion option into equity shares. However, this structure exposes the issuing company to exchange rate fluctuations in addition to the standard risks of debt.

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dividends can be paid to equity shareholders, protecting the income stream of the preference share investors.

18. (A) Non-Redeemable Preference Shares - Come with an arrangement guaranteeing immediate redemption upon request.
Non-redeemable or irredeemable preference shares are defined by the absence of a maturity date or a mandatory buy-back provision by the issuer, meaning capital is only returned upon liquidation. Claiming they guarantee immediate redemption upon request is factually incorrect. In contrast, redeemable shares have specific repayment dates, and convertible shares allow for a transition into equity ownership.

19. (C) Assertion (A) is true, but Reason (R) is false.
Participating preference shares grant holders the right to a portion of the company's surplus profits or assets during liquidation, beyond their fixed dividend or capital repayment. However, this participation in surplus occurs only after the claims of equity shareholders have been fully addressed. Therefore, the claim that this right is granted before equity shareholders are compensated is incorrect.

20. (D) They are recorded as a contingent liability in the company's balance sheet.
When a company fails to pay dividends on cumulative preference shares, these unpaid amounts are not immediately written off or converted into debt. Instead, they represent a potential future obligation that the company must fulfill before paying equity dividends. Consequently, these arrears are formally disclosed as a contingent liability in the notes to the company's financial statements.

21. (C) I and III
Irredeemable preference shares are instruments where the capital is only returned when the company is wound up or liquidated. Similarly, adjustable-rate preference shares feature floating dividends linked to market interest rates rather than a fixed percentage. However, non-convertible preference shares specifically lack the right to be exchanged for common stock, making that particular statement regarding automatic conversion incorrect.

22. (B) I, III, and IV
Preference shares serve as an effective tool for acquiring capital when primary markets are sluggish and provide flexible medium-term funding without the need for collateral like mortgages. They are also exempt from certain deposit regulations. However, issuing these shares does not require a charge on assets, which distinguishes them from secured debt instruments like mortgages or debentures.

23. (D) Dividends, formerly exempt, are now taxable for investors.
Investor appetite for preference shares at lower dividend rates has diminished recently due to changes in tax legislation. Previously, dividends received by investors were often exempt from tax under specific provisions. The shift toward making these payouts taxable in the hands of the recipient has reduced the net return, leading investors to demand higher yields to compensate for the tax.

24. (A) A charge, such as a mortgage or hypothecation, is necessary to issue preference shares.
Preference capital is often utilized because it does not require the company to create a charge on its assets, unlike secured loans or debentures. This allows the firm to preserve its collateral for other borrowing needs. It also offers a way to raise funds without diluting equity control or incurring fixed interest obligations that could lead to bankruptcy.

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25. (A) I, II, III, and V
The redemption of preference shares is governed by legal standards ensuring that the company's capital base remains stable to protect creditors. This involves using either a fresh issue of shares or transferring profits to a Capital Redemption Reserve. While these methods safeguard the nominal value of capital, the assertion that fresh issues keep funds intact indirectly is slightly inaccurate.

26. (A) The balance in this account can only be used for the issue of bonus shares.
The Capital Redemption Reserve is a restricted reserve created under the Companies Act when preference shares are redeemed out of profits. To ensure that the company's capital is not permanently reduced to the detriment of

82. (A) A coupon of 7.5%, significantly lower than straight Eurobonds.
In 1992, the British firm Carlton issued convertible bearer form bonds with a coupon rate of 7.5%. This was a strategic move as the rate was notably lower than the interest rates prevailing on straight, non-convertible Eurobonds at the time. The lower interest cost was possible because investors were willing to accept less yield for the potential equity conversion.

83. (C) $4,000
The Standard Oil oil-linked bond featured a cap on the crude oil price at $40. Even if the market price rose to $45, the payout was calculated based on the $40 limit. The excess of $15 ($40 minus $25) multiplied by 200 barrels equals $3,000. Adding this premium to the $1,000 face value results in a total maximum payment of $4,000.

84. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Standard Oil allowed its note holders to redeem their investments early starting in April 1991. These redemption opportunities were specifically scheduled for the first and fifteenth of each month. While both the availability of the option and its specific scheduling are factual components of the bond's terms, the schedule itself is a procedural detail rather than the underlying reason for the option.

85. (A) P-2, Q-4, R-1, S-3
Different corporations tailored hybrid designs to solve unique economic problems. Manufacturing company Hanover used rating-sensitive notes to reduce bondholder-stockholder conflicts. Sperry Corporation focused on foreign exchange risks with dual currency bonds. Leeds Permanent Building Society used collared FRNs for interest rate management, and Standard Oil of Ohio leveraged oil-linked bonds to hedge against commodity price shifts.

86. (B) Sperry Corporation - Rating sensitive floating rate note
Sperry Corporation is known for issuing dual-currency bonds to manage foreign exchange risks, not rating-sensitive notes. Rating-sensitive floating rate notes were actually pioneered by companies like manufacturing company Hanover to align the interests of creditors and shareholders. The other pairs, including Carlton's bearer bonds and Leeds' collared FRNs, correctly identify the innovators and their respective instruments.

87. (B) Floor of 7% and Cap of 11%
The collared floating rate notes issued by Leeds Permanent Building Society provided a protective range for interest payments. They featured a floor of 7%, ensuring investors a minimum return even if market rates plummeted. Simultaneously, a cap of 11% was established, limiting the issuer's interest expense if market rates rose sharply, effectively hedging interest rate risk for both parties.

88. (A) A spread above Libor that increases as the debt rating drops.
Hanover's rating-sensitive note was designed to automatically adjust the interest cost based on the company's creditworthiness. The interest was set as a spread over LIBOR; if the company's credit rating declined, the spread would increase, compensating bondholders for the higher risk. This mechanism reduced the incentive for equity holders to take excessive risks that would harm the firm's rating.

89. (A) Interest payable annually in Swiss francs, principal equal to dollars.
The Sperry Corporation dual-currency bond was structured to hedge currency exposure. It mandated that annual interest payments be made in Swiss francs, while the final principal repayment was fixed in US dollars. This split-currency structure allowed the company to match its cash outflows with its specific currency-denominated revenues and assets, mitigating the impact of exchange rate volatility.

90. (C) Both I and II
The rise of exotic hybrid securities is viewed through two main perspectives. Some financial analysts believe they are primarily pushed by investment bankers seeking to create new products. Conversely, many argue these instruments represent genuine market innovations that provide better risk-sharing and funding solutions for both issuers and investors than traditional debt or equity instruments could offer alone.

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91. (D) They automatically eliminate all agency costs without conversion.
Hybrids gain popularity because they complete financial markets, offer unique payoff structures, and provide tax benefits as the interest or dividends can sometimes be deducted. While they help alleviate agency costs by aligning interests, they do not automatically eliminate them without any possibility of conversion or interaction between the different stakeholders involved in the capital structure.

92. (B) Improved cash flow matching, synergy, and fewer agency problems.
The widespread use of convertible debentures and warrants is best explained by their ability to solve several financial challenges simultaneously. They allow firms to match debt payments with their life-cycle cash flows, capture financial synergies by bridging valuation gaps, and reduce agency conflicts between debt and equity holders. These combined benefits make hybrids superior to simple instruments in complex environments.

93. (D) I, II, and III
Preference shares are highly customizable instruments that vary across several dimensions. They can be cumulative, allowing dividends to build up if unpaid, or participating, giving holders a claim on surplus profits. Additionally, they can be designed with redemption features or conversion options, allowing them to transform into equity, thereby meeting the diverse needs of both companies and investors.

94. (A) I, II, and III
Evaluating a package consisting of debentures and warrants requires considering the sum of its parts. Analysts determine its total value by adding the market value of the straight debenture component, the potential value of the conversion privilege, and the standalone value of the warrants. Factors like agency costs or contingent liabilities are secondary considerations rather than direct components of this valuation.

95. (D) I, II, III, IV, and V
To be included in Additional Tier 1 Capital, PNCPS must be fully paid-up, perpetual, and lack any step-up incentives or put options. They are capped at 1.5% of risk-weighted assets and require RBI approval for redemption. Strict rules also prevent the bank or its related parties from funding the purchase of these shares, ensuring the capital remains genuinely loss-absorbing.

96. (A) P-3, Q-1, R-2, S-4
In the valuation formula for partially convertible debentures, each variable represents a specific cash flow or discount rate. I_t refers to the interest receivable at a specific time, while P_i is the expected equity share price at the end of the conversion period. F_j denotes the principal repayment instalments, and K_d is the required rate of return for the debt component.

97. (B) P-2, Q-1, R-4, S-3
The Black Scholes Model utilizes various mathematical and computational tools. Natural logarithm operations are essential for the formula, and N represents the cumulative normal distribution. In practice, modern spreadsheet software uses functions like NORM.DIST for statistical calculations, while EXP and LN are standard Excel functions employed to compute the continuous compounding and logarithmic components of the model.

98. (A) P-2, Q-4, R-1, S-3
Corporate history is marked by significant financial events at different times. TISCO's notable convertible issue occurred in June 1989, while Carlton's bearer Eurobond was issued in 1992. More recent events include AB Limited's actions in January 2016 and Man Industries' activities in November 2020. These dates reflect the evolving use of diverse financial instruments by various global and Indian corporations over several decades.

99. (C) Assertion (A) is true, but Reason (R) is false.
Mezzanine financing provides investors with higher potential returns than standard senior debt because it carries higher risk. However, it is fundamentally an unsecured or subordinated instrument, not a secured one. Furthermore, its attractiveness often stems from conversion rights or warrants rather than just fixed interest rates, making the claim that it is a secured debt with no conversion rights incorrect.

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100. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Investors in Foreign Currency Convertible Bonds face the risk of total loss if the issuing company becomes insolvent or goes bankrupt. This is because these bonds are debt obligations that depend on the issuer's ability to remain solvent for principal repayment. This risk is compounded by currency fluctuations, as both the creditworthiness and exchange rate shifts directly affect the investor's final return.

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Oct/Nov 2009

13. Regarding the Single Point Registration Scheme, which of the following statements is correct?
(A) Early-stage micro and small enterprises are eligible for a Provisional Registration certificate valid for one year.
(B) The registration certificate awarded to Micro and Small Enterprises is valid permanently without any requirement for renewal.
(C) The scheme mandates that large-scale corporate entities must be registered with NSIC to participate in Government Purchases.
(D) Businesses must have a maximum annual revenue of Rs. 25 lakhs to be eligible for a Provisional Registration certificate.

May/June 2019

14. How does the SCO (Shanghai Cooperation Organisation) Startup forum intend to boost scaling prospects for startups?
(A) By directly purchasing equity shares in startups across all member states to ensure capital flow.
(B) By mandating a uniform tax code for all startups operating within the SCO member states for consistency.
(C) By providing a venue for stakeholders to collaborate and promote entrepreneurship through knowledge exchange.
(D) By dissolving local startup regulations and replacing them with a single global regulatory framework.

Oct/Nov 2016

15. The main challenges faced by startups include several factors. Which of the following is NOT listed as one of these main challenges?
(A) Fierce Competition, lack of demand, and Ineffective marketing.
(B) Winning Trust of Customers.
(C) Time management and productivity.
(D) Guarantee of immediate venture capital funding without proof of concept.

May/June 2022

16. What is the definition of a Pitch Deck as offered by the Startup India initiative?
(A) A brief presentation providing investors with an overview of the business plan and vision.
(B) An advanced financial modeling software utilized by venture capitalists to evaluate startup valuations.
(C) A government portal that connects aspirants to significant ecosystem builders for securing debt financing.
(D) A mandatory regulatory document submitted to authorities for validating the scalability of a business model.

Oct/Nov 2018

17. Which of the following statements is incorrect about the ESOPs taxation policy?
(A) The tax burden at the time of Exercise was reduced in the Budget for 2020 by completely eliminating the payment of all taxes permanently.
(B) ESOPs are subject to double taxation.
(C) The perquisite during the exercise is subject to a TDS deduction from the employer and is reflected as Income from Salary on Form 16.
(D) The payment of taxes can be delayed for a period of five years, or until the employee leaves the company, or until the person sells their shares, whichever comes first.

May/June 2010

18. Within how many working hours does the DPIIT recognition procedure aim to review and grant certificates for complete and qualified applications on the online platform?
(A) 48-72 working hours
(B) 24-48 working hours
(C) 72-96 working hours
(D) 90-120 working hours

Oct/Nov 2025

19. Which of the following correctly describes the limits of credit guarantee coverage under the Credit Guarantee programme for startups?
(A) Coverage of guarantee for about 5,000 crores for 1,000 startups, with an average loan amount of 10 crore.
(B) Coverage of guarantee for about 50,000 crores for 10,000 startups, with an average loan amount of 1 crore.
(C) Coverage of guarantee for about 2,000 crores for 500 startups, with the average loan amount to eligible borrowers being 25 crore.
(D) Coverage of guarantee for about 15,000 crores for 3,000 startups, with the average

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companies that have already proven their capabilities on national platforms from participating.

(C) A powerful search with an intuitive filter enables seamless discovery of startups for stakeholders.

(D) The platform offers a variety of social and digital connect opportunities to provide assistance in discovering new business opportunities.

Oct/Nov 2010

7. What defines a startup?

(A) A company or project undertaken by a venture capitalist to seek, develop, and validate a highly profitable monopoly.

(B) A company or project undertaken by an entrepreneur to seek, develop, and validate a scalable business model.

(C) All new businesses, including self-employment and businesses that never intend to become registered.

(D) A corporate subsidiary established to handle the incentive disbursement process for new ventures.

May/June 2024

8. Which of the following statements correctly describes the single overarching policy framework of the Startup India Action Plan unveiled on January 16, 2016?

(A) It established a requirement for startups to obtain a letter of recommendation from an incubator to register.

(B) It included 19 recommendations across financial incentives, industry collaboration, and simplification.

(C) It restricted startup recognition strictly to businesses that intend to remain self-employed without growing.

(D) It focused exclusively on providing direct government employment to youth in rural areas without funding.

Oct/Nov 2011

9. Which of the following statements is incorrect regarding the Insolvency and Bankruptcy Code 2016 provisions for startups?

(A) The Ministry of Corporate Affairs has notified startups that they are "Fast Track Firms."

(B) Startups are allowed to wind up their activities within 180 days, similar to the timeline required for regular enterprises.

(C) An insolvency professional will be arranged for the startup to liquidate its assets and pay creditors within six months of appointment.

(D) The promoters and management will not be permitted to run the business once the insolvency professional takes charge.

NODIA

May/June 2015

10. What is the total corpus of the SIDBI Fund of Funds Scheme established by the Government of India?

(A) Rs. 500 crore

(B) Rs. 945 crore

(C) Rs. 10,000 crore

(D) Rs. 2,000 crore

Oct/Nov 2022

11. The IREDA NCEF Refinance Scheme sets specific eligibility parameters for scheduled commercial banks. Which of the following is NOT a required parameter?

(A) They should have made a profit over the course of the previous three years.

(B) They should not have any accumulated losses.

(C) The Capital Adequacy Ratio ought to be in accordance with the rules imposed by the regulatory authorities.

(D) The total portfolio of the lending institution should have a ratio of gross non-performing assets to gross advances that is strictly higher than 15 percent.

May/June 2007

12. What defines a "Grant" in the context of startup financing?

(A) An investment made by private individuals in high-potential enterprises in exchange for a share of ownership.

(B) A pool of money managed by professionals dedicated to making investments in companies for rapid development.

(C) A financial incentive granted by an organization to promote a specific goal without requiring payback.

(D) A loan provided by commercial banks requiring the submission of collateral and repayment with interest.

(C) Funding operations solely through the reinvestment of the firm's internal profits and personal savings of the founder.
(D) Borrowing money from a lender and paying it back with interest within a predetermined amount of time.

Oct/Nov 2008

27. Startups are eligible for various benefits under the Startup Plan. Which of the following is NOT one of the specified benefits?
(A) Exclusion from any business inspections for a period of 10 to 15 years.
(B) Priority treatment for startups in public procurement.
(C) An 80% fee discount for patent registration.
(D) The ability to self-certify in relation to nine labour regulations and three environmental laws.

May/June 2016

28. Under the Technology Development Fund, funding will be considered for projects with costs up to what maximum amount?
(A) Rs. 10 crore
(B) Rs. 5 crore
(C) Rs. 25 crore
(D) Rs. 100 crore

Oct/Nov 2012

29. Which of the following statements regarding the Initial Definition of a startup is incorrect?
(A) An entity is considered a startup up to five years from the date of its incorporation/ registration.
(B) Its turnover for any of the financial years has not exceeded Rs. 25 crore.
(C) Any entity formed by splitting up or reconstruction of a business already in existence shall be considered a startup.
(D) It must be working towards innovation, development, deployment or commercialisation of new products, processes or services driven by technology or intellectual property.

May/June 2023

30. In the context of the Series A Stage, why do the majority of business owners often choose to obtain loans from banks and NBFCs alongside venture capital?
(A) Because banks and NBFCs provide active mentoring and operational control to the business owners.
(B) Because venture capitalists legally prohibit startups from raising further equity capital from other private equity firms.
(C) Because bank loans do not require the presentation of market response or established credibility.
(D) Because loans from banks, NBFCs, and other financial institutions do not dilute the equity of the business.

Oct/Nov 2024

31. Arrange the following funding stages of a startup in the normal chronological sequence as they correlate with the stage of operation:
I. Scaling
II. Idea Phase
III. Exit Options
IV. Series A Stage
V. Seed Stage
(A) II, IV, V, I, III
(B) V, II, IV, I, III
(C) II, V, IV, I, III
(D) II, V, I, IV, III

May/June 2006

32. Which of the following pairs incorrectly matches the aspect of an investor's outlook in startups with its typical implication?
(A) Objective and Problem Solving – Identifying the specific issue the startup intends to resolve.
(B) Exit Avenues – Planning for perpetual non-transferable ownership without any possibility of selling the portfolio firm.
(C) Management and Team – Evaluating the technical and business expertise of the founders.
(D) Scalability and Sustainability – Assessing if the business model can grow large beyond the solo founder consistently.

Oct/Nov 2015

33. What is the most appropriate description of the primary mission of the Startup India Seed Fund Scheme?
(A) To provide late-stage venture capital funding of up to Rs. 100 crore for scaling operations globally.
(B) To aid new businesses in India in establishing a proof of concept, developing

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loan amount to eligible borrowers being 5 crore.

May/June 2020

20. Under the Support for International Patent Protection in Electronics and Information Technology (SIP-EIT) programme, what is the overarching goal regarding intellectual property?

(A) To encourage innovation and enable growth in the ICTE sector by recognizing global intellectual property.

(B) To transfer the ownership of all domestic patents to the Ministry of Electronics and Information Technology.

(C) To completely subsidize the cost of domestic trademark registration for all manufacturing firms regardless of sector.

(D) To restrict the filing of international patents by MSMEs to prevent the leakage of domestic technology.

Oct/Nov 2007

21. The Startup India Seed Fund Scheme calculates a financial limit of ten million rupees received from other central or state government programmes. Which of the following is NOT excluded from this limit?

(A) Prize money from competitions and grant challenges.

(B) Subsidised working space and access to labs.

(C) Direct equity investments injected previously by a State Government's specialized startup investment fund.

(D) Founder monthly allowance and access to prototyping facility.

May/June 2014

22. On which date was the "Startup India Action Plan" unveiled?

(A) April 1, 2016

(B) January 16, 2016

(C) September 7, 2020

(D) April 19, 2021

Oct/Nov 2017

23. What is the primary purpose of establishing business incubators under the Startup Plan?

(A) To provide startups with an exclusive platform to sell products directly to international markets without taxation.

(B) To act as regulatory bodies that monitor compliance with nine labour regulations and three environmental laws.

(C) To assume complete management control of early-stage businesses until they reach a minimum turnover of Rs. 25 crore.

(D) To help entrepreneurs build businesses by offering capital, networking, mentoring, and advisory support.

May/June 2011

24. Identify the incorrect statement pertaining to the National Startup Award.

(A) The purpose of the award is to recognise and reward excellent startups and ecosystem enablers contributing to the economic ecosystem.

(B) Ventures that are having a measurable positive effect on society are considered examples of good candidates.

(C) Winning startups in the competition received monetary prizes in addition to support from the government.

(D) The award strictly excludes startups developing innovative technologies, solutions, and products from India to the rest of the world.

Oct/Nov 2020

25. Which of the following statements correctly represents the expanded startup definition under GSR Notification 127 (E)?

(A) An entity shall be considered a startup up to five years from the date of its incorporation/ registration.

(B) An entity is a startup up to ten years from incorporation with turnover not exceeding Rs. 100 crore.

(C) An entity shall be considered a startup if its turnover for any financial year has not exceeded Rs. 25 crore.

(D) An entity formed by splitting up or reconstruction of a business already in existence shall be considered a startup.

NODIA

May/June 2025

26. What does "Debt Financing" entail for a startup?

(A) Sharing ownership in the company with an investor without the requirement to make any payments toward the principal.

(B) Receiving a financial incentive from one organization to another to promote a goal without any sort of payback.

R. Section 54 GB
S. Rule 170(1) of GFR 2017

List II: (Benefit)
1. Exemption from requirement to submit earnest money deposit
2. Exemption from income tax for issuance of shares at a price higher than their fair market value
3. Deductions for any three consecutive years out of ten years
4. Exemption from paying tax on capital gains from the sale of residential property

(A) P-4, Q-3, R-1, S-2
(B) P-2, Q-3, R-4, S-1
(C) P-1, Q-4, R-2, S-3
(D) P-3, Q-2, R-1, S-4

Oct/Nov 2011

51. Consider the following statements regarding the Extra Mural Research scheme by SERB:
I. The programme is designed to encourage both upcoming and established researchers in the fields of science and engineering.
II. Candidates need to prove they are citizens of India, though applications can be submitted by foreign nationals meeting specific eligibility conditions.
III. The plan will typically finance a length of time that is equal to three years.

Which of the statements given above are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2015

52. Arrange the following stages of the Startup Fund Raising process in the correct sequential order:
I. Preparation of Pitch deck/presentation
II. Assessing the need for funding
III. Due diligence by Interested Investor
IV. Investor Targeting
V. Term Sheet
(A) I, II, IV, III, V
(B) II, I, III, IV, V
(C) I, IV, II, V, III
(D) II, I, IV, III, V

Oct/Nov 2022

53. Match the categories of the India Croatia Startup Challenge 2022 (List I) with their corresponding problem descriptions (List II).

List I: (Category)
P. Clean Water and Sanitation
Q. Reduced Inequality
R. Decent work and Economic Growth
S. HAMAG-BICRO

List II: (Problem Description)
1. Partner organisation for the Startup Challenge alongside Startup India
2. Improving skills of workers in the on-demand economy before automation
3. Integrating refugee lives into regional and international economies
4. Addressing potential displacement of 700 million people by 2030

(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-4, R-1, S-2
(C) P-2, Q-1, R-4, S-3
(D) P-1, Q-2, R-3, S-4

May/June 2007

54. Consider the following statements regarding the WING programme:
I. It is a Women Capacity Development programme that offers training and a platform for women-led businesses.
II. A virtual Incubation programme for Women Entrepreneurs was run in partnership with Zone Firms to provide paid acceleration support for a period of twelve months.

Which of the statements given above is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2009

55. Which of the following pairs correctly matches the programme with its target demographic?
(A) Start-up India for Financing SC/ST and/or Women Entrepreneurs – Borrowers belonging to a scheduled caste, scheduled tribe, or women establishing a greenfield business
(B) WING Programme – High school students up to Class 12
(C) INSPIRE Awards-MANAK – Women-led businesses
(D) I-DAPT Health Tech Hackathon – Only professionals and employed individuals working in mining operations

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prototypes, breaking into new markets, and conducting product tests.

(C) To replace the commercial banking system by offering unlimited, collateral-free personal loans to any individual interested in entrepreneurship.

(D) To acquire a majority ownership stake in all participating startups to ensure government control over intellectual property.

May/June 2012

34. Consider the following statements regarding the I-DAPT Health Tech Hackathon:

I. It is looking for student innovators developing cutting-edge innovative ideas specifically in the Health-Tech or Med-Tech field.

II. High school students up to Class 12, as well as undergraduate and graduate students with a science, engineering, or medical background can apply.

Which of the statements given above is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2006

35. Match the specific NCL - IIT BHU Cleantech Innovation Challenge requirements (List I) with their applications (List II).

List I: (Requirement)

P. Autonomous underwater drone
Q. Cage drone or drone ball
R. Automatic seed ball forming machine
S. Robotic arm or bots

List II: (Application)

1. Inspecting, mapping, or exploring flooded mines
2. Inspecting the various structural components of draglines
3. Rolling a mixture of clay and manure around a seed
4. Cleaning of solar panels without the use of water

(A) P-1, Q-2, R-3, S-4
(B) P-4, Q-3, R-2, S-1
(C) P-2, Q-1, R-4, S-3
(D) P-3, Q-4, R-1, S-2

May/June 2009

36. Consider the following statements regarding the "Start-up India for Financing SC/ST and/or Women Entrepreneurs" scheme:

I. It arranges bank loans ranging from 10 lakhs to 1 crore.

II. In the case of non-individual businesses, at least 51 percent of the company's shareholdings and controlling stake need to be owned by a historically oppressed group person or a woman.

III. Only projects that are considered greenfield can qualify for a loan through this programme.

Which of the statements given above are correct?

(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2021

37. While preparing slides for a pitch presentation, what is the most appropriate focus an entrepreneur should maintain?

(A) Providing a clear and concise presentation that emphasises the most significant aspects of the enterprise and answers maximum questions an investor might have.

(B) Emphasising all the intricate operational details of the enterprise rather than the significant aspects.

(C) Excluding the Executive Summary and call for action to build suspense during the meeting.

(D) Focusing solely on the historical origins of the dotcom boom without outlining the Business Model.

May/June 2017

38. Match the Pitch Presentation components (List I) with their purpose (List II).

List I: (Component)

P. Problem Statement
Q. Business Model
R. Team Composition
S. Executive Summary and call for action

List II: (Purpose)

1. The issues faced by business/society
2. The operational strategy and revenue generation mechanism
3. The profiles and cohesive structure of the individuals leading the venture

NODIA

CHAPTER 20
Startup Finance

Oct/Nov 2014

1. What is the target age group for the INSPIRE "Innovation in Science Pursuit for Inspired Research" Awards-MANAK?
(A) Young people between the ages of 15 and 25 currently enrolled in universities.
(B) Undergraduate and graduate students with a science, engineering, or medical background.
(C) Professionals and employed individuals up to the age of 35 working in R&D.
(D) Young people between the ages of 10 and 15 enrolled in classes six through ten.

May/June 2008

2. Which statement is correct regarding the tax exemption provided under Section 56(2)(viib) of the Income Tax Act?
(A) The total value of issued shares that is strictly equal to the fair market value is considered revenue under Other Sources.
(B) It was implemented with the intention of encouraging the generation of unaccounted money through share subscriptions.
(C) Startups are exempt from tax on share issuance above fair market value on the basis of self-declaration.
(D) The tax exemption under this section is only applicable to publicly listed multinational corporations.

Oct/Nov 2019

3. How is the concept of "bootstrapping" defined in the context of startup funding?
(A) Selling equity shares of the company to venture capitalists in exchange for early-stage capital.
(B) Raising funds through a method in which a large number of people give a modest amount of money via an online platform.
(C) Growing a company using only one's own resources and generated profits, refusing any outside investment.
(D) Borrowing money from a lender and paying that money back with interest within a predetermined amount of time.

May/June 2021

4. Which of the following statements is incorrect regarding the India Croatia Startup Challenge 2022?
(A) It was introduced to work together to solve some of the world's most pressing innovative problems.
(B) One of the outlined categories is Clean Water and Sanitation, addressing potential water scarcity by 2025.
(C) This specific competition prohibits participation from any late-stage registered businesses from India and Croatia.
(D) It encourages inventive startups in their efforts to grow solutions beyond international borders.

Oct/Nov 2005

5. What defines a "Grant" in the context of startup financing?
(A) An investment made by private individuals in high-potential enterprises in exchange for a share of ownership.
(B) A pool of money managed by professionals dedicated to making investments in companies for rapid development.
(C) A financial incentive granted by an organization to promote a specific goal without requiring payback.
(D) A loan provided by commercial banks requiring the submission of collateral and repayment with interest.

May/June 2013

6. The Startup India Showcase platform features several primary characteristics. Which of the following is NOT one of them?
(A) On the profile page of each business, a full pitch about their product, innovation, and unique selling proposition (USP) is offered.
(B) The online networking platform prohibits

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R. UK-India Startup Launchpad
S. India-Korea Startup Hub

List II: (Partner Nation)
1. Brazil
2. Sweden
3. United Kingdom
4. Korea

(A) P-2, Q-1, R-3, S-4
(B) P-1, Q-2, R-4, S-3
(C) P-3, Q-4, R-1, S-2
(D) P-4, Q-3, R-2, S-1

Oct/Nov 2019

45. Consider the following statements regarding the SIDBI Fund of Funds Scheme (FFS):

I. The fund of funds makes direct investments in the new startup businesses.
II. Capital is provided by FFS to SEBI-registered alternative investment funds, often known as daughter funds.
III. The selection of daughter funds and the monitoring of the distribution of committed money fall under the purview of SIDBI.

Which of the statements given above are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2021

46. What is the most appropriate primary objective of the Startup India Yatra programme?
(A) To facilitate the international relocation of established startups to European nations for global expansion.
(B) To identify prospective business owners living in non-metropolitan areas across Tier 2 and Tier 3 cities and provide them with business incubation and mentoring.
(C) To mandate all startups in Tier 1 cities to contribute 10% of their revenue to agricultural development.
(D) To centralize all corporate insolvency proceedings under a single regulatory tribunal in the capital city.

Oct/Nov 2005

47. Consider the following statements regarding the ISMC under the Startup India Seed Fund Scheme:

I. Each incubator that submits an application must form a committee comprised of industry professionals to evaluate and choose entrepreneurs.
II. The ISMC will choose startups to get the Seed Fund within 45 days after receiving the Application.

Which of the statements given above is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2013

48. Match the Challenge/Programme (List I) with its focus area (List II).

List I: (Programme)
P. Incubator Grand Challenge
Q. Digital Demo Day
R. Ayushman PMJAY Startup Grand Challenge
S. Startup India Single Use Plastic International Challenge

List II: (Focus Area)
1. Digital transformation in VR, AR, and IoT
2. Efficient implementation of Jan Arogya Yojana
3. Reducing disposable plastics in food and beverage industry
4. Established Incubation Centres (EIC) capacity building

(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-4, R-3, S-2
(C) P-3, Q-2, R-1, S-4
(D) P-2, Q-3, R-4, S-1

Oct/Nov 2010

49. Which of the following pairs incorrectly matches the stage of startup funding with its typical funding source?
(A) Scaling Phase – Unofficial sources like friends and family primarily
(B) Idea Phase – Bootstrapping
(C) Seed Stage – Angel Investors and Crowdfunding
(D) Series A Stage – Venture Capital Funds and NBFC loans

May/June 2024

50. Match the Section/Rule (List I) with its corresponding tax or regulatory benefit (List II).

List I: (Section/Rule)
P. Section 56(2) (viib)
Q. Section 80-IAC

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4. A concise overview emphasising significant aspects alongside a request for action

(A) P-1, Q-2, R-3, S-4
(B) P-2, Q-1, R-4, S-3
(C) P-3, Q-4, R-1, S-2
(D) P-4, Q-3, R-2, S-1

Oct/Nov 2023

39. Consider the following statements regarding the Startup India Hub:

I. Stakeholders were given a totally online forum with the start of the recognition project under Startup India.
II. The need for a letter of recommendation from an incubator or industry group was dropped in order to profit from the projects.

Which of the statements given above is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2005

40. Match the Startup Funding Source/Instrument (List I) with its characteristic (List II).

List I: (Funding Source)
P. Bootstrapping
Q. Angel Investors
R. Venture Capital Funds
S. Crowdfunding

List II: (Characteristic)
1. A large number of people give a modest amount of money apiece
2. Basing operation and growth on the profits and savings generated by the firm
3. Private individuals putting money into high-potential enterprises for a share of ownership
4. Pools of money managed by professionals dedicated to making investments for rapid development

(A) P-3, Q-2, R-1, S-4
(B) P-2, Q-3, R-4, S-1
(C) P-4, Q-1, R-2, S-3
(D) P-1, Q-4, R-3, S-2

Oct/Nov 2013

41. Consider the following statements regarding the GeM Startup Runway (Swayatt) initiative:

I. Swayatt stands for "Startups, Women and Youth Advantage through e-transactions."
II. Startups can conduct market trials with the government buyers for nearly three months.
III. If the product or service obtains at least three favourable evaluations, the startup will be pushed as a full-time seller on the platform.

Which of the statements given above are correct?

(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2018

42. What is the most appropriate description of a greenfield enterprise under the "Start-up India for Financing SC/ST and/or Women Entrepreneurs" scheme?

(A) An enterprise that primarily focuses on importing agricultural machinery from foreign nations.
(B) An enterprise that has been reconstructed from an existing legacy business originally established before the year 2000.
(C) An enterprise that is the beneficiary's first foray into the manufacturing, commercial, or service industries.
(D) An enterprise that operates exclusively in the environmental conservation sector planting trees.

Oct/Nov 2014

43. Which of the following pairs correctly matches the Indian Research Park with its status as one of the new research parks established by May 2021?

(A) IIT Indore – Identified as one of the eight research parks established as of May 2021
(B) IISc Bangalore – Identified as one of the eight research parks established as of May 2021
(C) IIT Roorkee – Identified as one of the eight research parks established as of May 2021
(D) IIT Jammu – Identified as one of the eight research parks established as of May 2021

May/June 2008

44. Match the International Startup Bridges (List I) with their respective partner nations/regions (List II).

List I: (Startup Bridge)
P. Indo-Sweden Mentor link
Q. India-Brazil Startup Bridge

NODIA

May/June 2019

56. In the scaling stage, when the market response has already been validated, what is the most appropriate funding approach for late-stage firms?
(A) Approaching venture capital firms that have larger ticket sizes, as this is often the best time to do so.
(B) Seeking grants from local municipal corporations.
(C) Utilizing online crowdfunding platforms to raise modest amounts of money from a large number of people.
(D) Relying strictly on bootstrapping by liquidating the founders' personal residential properties.

Oct/Nov 2016

57. Consider the following statements regarding the relaxation by MCA on deposits for private company startups:
I. A convertible note received by a startup in a single tranche must be an amount of Rs. 25 lakhs or more.
II. The convertible note must be convertible into equity shares or repayable within 10 years from the date of issue.
III. The maximum limit in respect of deposits to be taken from members (i.e., 35% of the aggregate paid up share capital, free reserves, and securities premium account) is not applicable.
Which of the statements given above are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2022

58. Match the Funding Scheme/Programme (List I) with its managing entity (List II).
List I: (Scheme)
P. Venture Capital Assistance Scheme
Q. SIP-EIT
R. Biotechnology Ignition Grant (BIG)
S. High Risk High Reward Research
List II: (Managing Entity)
1. Department of Science and Technology (SERB)
2. Ministry of Electronics and Information Technology
3. Biotechnology Industry Research Assistance Council
4. SFAC (Ministry of Agriculture and Farmers Welfare)
(A) P-2, Q-3, R-1, S-4
(B) P-4, Q-2, R-3, S-1
(C) P-3, Q-4, R-2, S-1
(D) P-1, Q-2, R-4, S-3

Oct/Nov 2018

59. Consider the following statements regarding the DPIIT recognition of startups:
I. Over the six years prior to 2021-22, the majority of startup activity in India was concentrated in the IT and knowledge-based sectors.
II. After the United States and China, India has the third-largest startup ecosystem globally.
Which of the statements given above is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2010

60. Match the incubator eligibility criteria under the Startup India Seed Fund Scheme (List I) with the required minimum threshold (List II).
List I: (Criteria)
P. Minimum operational period prior to date of application
Q. Bare minimum seating capacity requirement
R. Minimum number of start-up companies actively participating in the incubation process
S. Minimum physical startups undergoing incubation if no government assistance is provided
List II: (Threshold)
1. 2 years
2. 25 people
3. 5 start-up companies
4. 10 startups
(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-2, Q-4, R-1, S-3
(D) P-4, Q-3, R-2, S-1

Oct/Nov 2025

61. Consider the following statements regarding tax benefits for startups (including Section 54 GB and Section 79):

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ANSWERS

1. (D) Young people between the ages of 10 and 15 enrolled in classes six through ten.
The Million Minds Augmenting National Aspirations and Knowledge (MANAK) scheme targets students aged 10 to 15 years enrolled in classes six to ten. It aims to build a critical human resource pool for the science and technology system. By fostering a culture of innovation and creative thinking among schoolchildren, the programme helps address societal needs through science.

2. (C) Startups are exempt from tax on share issuance above fair market value on the basis of self-declaration.
Under Section 56(2)(viib), startups are exempted from income tax on share issuance above fair market value based on a self-declaration. This provision was originally designed to prevent the generation of unaccounted money through share subscriptions at inflated values. However, recognized startups benefit from this exemption to facilitate capital infusion without the burden of extra tax liabilities.

3. (C) Growing a company using only one's own resources and generated profits, refusing any outside investment.
Bootstrapping involves building and growing a business using only the personal resources of the founders and the revenue generated from operations. This approach avoids seeking external capital from venture capitalists or banks in the early stages. It allows entrepreneurs to maintain full control over their company while ensuring financial discipline and sustainable growth through internal funding.

4. (C) This specific competition prohibits participation from any late-stage registered businesses from India and Croatia.
The India Croatia Startup Challenge 2022 is designed to encourage inventive startups to expand solutions internationally and address global problems. Categories include Clean Water, Sanitation, and Reduced Inequality. Contrary to the incorrect statement, the competition does not prohibit late-stage businesses from participating, as the goal is to foster collaboration across various stages of the startup ecosystem.

5. (C) A financial incentive granted by an organization to promote a specific goal without requiring payback.
In startup financing, a grant is a financial incentive provided by an organization or government to promote specific objectives without the expectation of repayment. Unlike loans or equity investments, grants do not require the borrower to pay back the principal or give up ownership shares. They are typically awarded based on merit, research potential, or social impact goals.

6. (B) The online networking platform prohibits companies that have already proven their capabilities on national platforms from participating.
The Startup India Showcase is an online platform that highlights high-potential startups that have already proven their capabilities on national platforms. It provides a curated list of businesses to stakeholders, offering detailed profiles including product pitches and unique selling propositions. The platform uses intuitive filters for seamless discovery and does not prohibit established national-level startups from participation.

7. (B) A company or project undertaken by an entrepreneur to seek, develop, and validate a scalable business model.
A startup is defined as a company or project undertaken by an entrepreneur to seek, develop, and validate a scalable business model. These ventures often face high uncertainty and high failure rates but aim for rapid growth. Unlike traditional small businesses, startups typically rely on various funding sources to cover large initial expenses while striving for significant market influence.

NODIA

expansion, or commercialization, what is the maximum amount the incubator can provide?
(A) Up to Rs. 50 lakhs in the form of convertible debentures, debt, or debt-linked securities.
(B) Up to Rs. 20 lakhs provided as a non-refundable grant for immediate operational expenditures.
(C) Up to Rs. 5 crore exclusively in the form of pure equity shares to ensure permanent ownership.
(D) Unlimited funding provided the startup has achieved a certified turnover of Rs. 100 crore.

Oct/Nov 2020

67. Consider the following statements regarding the "Fast Track Firms" under the Insolvency and Bankruptcy Code 2016:
I. Startups notified as Fast Track Firms are allowed to wind up their activities within 90 days.
II. Regular enterprises require 180 days to wind up their activities.
III. The promoters and the management will not be permitted to run the business during the liquidating process.
IV. The insolvency professional is responsible for paying its creditors within six months of their appointment.
Which of the statements given above are correct?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

May/June 2025

68. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): Startups have been granted an exemption from income tax under section 56(2)(viib) for the issuance of shares at a price higher than their fair market value on the basis of a self-declaration.
Reason (R): The original intention of this section under the Finance Act 2012 was to discourage the generation and use of unaccounted money through the subscription of shares of a closely held company at inflated values to prevent tax evasion.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2008

69. 'Aura Innovations' had a turnover of Rs. 95 crore in 2020-21 and Rs. 80 crore in 2021-22. They were incorporated on 10th May 2010. How does the tenure condition under the expanded definition affect their status if they apply in July 2022?
(A) They will not be recognized because they have crossed the ten-year limit from the date of incorporation.
(B) They will be recognized because their turnover never exceeded Rs. 100 crore.
(C) They will be recognized since healthcare technology startups are exempt from the ten-year limitation.
(D) They will not be recognized because a startup must maintain a flat turnover below Rs. 25 crore throughout its lifecycle.

May/June 2016

70. Consider the following statements regarding the pitch presentation components expected from an entrepreneur:
I. The presentation should emphasize the most significant aspects of the enterprise, rather than all of the intricacies.
II. It should include the Problem Statement, identifying the issues faced by business/society.
III. It must outline the Business Model and the technology used.
IV. It should detail the present status and timelines for execution.
V. An Executive Summary and call for action should be included to conclude.
Which of the statements given above are correct?
(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, II, III, IV, and V
(D) I, III, IV, and V only

Oct/Nov 2012

71. If there is no further funding of startups using the allocated money by the incubator for a period

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of three years, what is 'InnovateHub' legally required to do with the unutilized monies?
(A) It must return the unutilized monies to the DPIIT.
(B) It can absorb the funds permanently into its own management fee account.
(C) It must donate the funds to an external non-governmental organization.
(D) It must invest the funds in public stock markets to generate returns.

May/June 2023

72. Consider the following statements regarding the Startup India Yatra:
I. It was started with the intention of travelling across Tier 2 and Tier 3 cities in search of entrepreneurial talent.
II. A mobile van for the Startup India travels across the states and records ideas.
III. Throughout the course of the day, a boot camp is held, which includes idea validation, awareness workshops, and pitching sessions.
IV. The overarching objective is to visit every single district in the country.
Which of the statements given above are correct?
(A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, III, and IV

Oct/Nov 2024

73. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): The incubator is strictly prohibited from using the allocated management fees to pay for the construction of facilities or any other administrative costs.
Reason (R): As part of the scheme, a management fee of 5% of the total grant-in-aid is allocated to the incubator to be utilised for selecting the beneficiary startup, conducting due diligence, paying administrative expenses, and monitoring success.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2006

74. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): Startups under the Startup Plan are offered a 3-5 year exclusion from any business inspections.
Reason (R): On a written, verifiable allegation of a breach, accepted by at least one level above the inspecting officer, startups may be inspected despite the exclusion policy.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2015

75. 'Agri Growth' applies to a shortlisted incubator for funds strictly to validate the development of a prototype and conduct product testing. What is the maximum grant amount the incubator can disburse for this specific early-stage milestone under the Seed Fund Scheme?
(A) Up to Rs. 5 lakhs
(B) Up to Rs. 50 lakhs
(C) Up to Rs. 5 crore
(D) Up to Rs. 20 lakhs

May/June 2012

76. Consider the following statements regarding the funding distribution to an eligible startup by an incubator:
I. A grant of up to 20 lakhs Indian rupees can be provided to validate the development of a prototype or conduct product testing.
II. Up to 50 lakhs Indian rupees can be provided as investment capital for market entry, expansion, or commercialization.
III. The investment capital can be in the form of convertible debentures, debt, or debt-linked securities.
IV. The seed fund can be utilised for purposes entirely unrelated to the milestones associated with the seed capital.

NODIA

Which of the statements given above are correct?
(A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, III, and IV

Oct/Nov 2006

77. The tender document for 'EcoBuild' requires all bidders to have a minimum prior turnover of Rs. 50 crore and 3 years of prior experience. What relief is 'EcoBuild' entitled to regarding these specific conditions?
(A) They are granted a minor reduction, requiring only Rs. 25 crore turnover and 1 year of experience for eligibility.
(B) They must partner with a large corporation to meet the experience and turnover criteria through a joint venture.
(C) There is no relief; 'EcoBuild' will be disqualified if it does not meet the specified Rs. 50 crore turnover requirement.
(D) Rule 173 of GFR 2017 relieves recognized startups from conditions of past turnover and prior experience in tenders.

May/June 2009

78. Consider the following statements regarding the benefits provided under the Startup India Single Use Plastic International Challenge:
I. Individualized guidance from seasoned professionals in the sector is made available.
II. Grant funding is specifically provided for 10 pilots.
III. An exhibition of the impact of successful pilot projects is part of the programme.
IV. Occasions to establish professional contacts and seminars are arranged.
V. An opportunity for a Pilot Project with F&B Partners in Goa is offered.
Which of the statements given above are correct?
(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2021

79. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): The Support for International Patent Protection in Electronics and Information Technology (SIP-EIT) programme provides financial support to MSMEs and technology startups.
Reason (R): The overarching objective is to encourage innovation, recognise the value of global intellectual property, and enable startups to file international patents.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2017

80. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): Micro and small businesses that have begun commercial production but have not yet reached their one-year anniversary are eligible for a Provisional Registration certificate under the Single Point Registration Scheme.
Reason (R): The Provisional Registration certificate is valid for a period of ten years to ensure long-term stability for new enterprises.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2023

81. An incubator named 'InnovateHub' receives its first instalment from the EAC under the Seed Fund Scheme. After two years, an audit reveals that 'InnovateHub' has utilized less than fifty percent of the first instalment. What is the direct consequence for 'InnovateHub' regarding future drawdowns?
(A) The EAC will double the subsequent instalment to compensate for the delay.
(B) The incubator's physical assets will be immediately seized by the DPIIT.
(C) The incubator will not be allowed for any further drawdowns.

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lakhs is automatically classified as a deposit under current law.
(B) No, because it is Rs. 25 lakhs or more via a single convertible note repayable within 10 years.
(C) Yes, because convertible notes are strictly classified as deposits regardless of the tenure or the amount.
(D) No, because startups are permanently exempted from all deposit rules entirely to promote business growth.

May/June 2024

92. A group of agriculture graduates forms a firm to set up an agribusiness venture. They face a shortfall in their capital requirements for executing their bankable Detailed Project Report (DPR). Which funding scheme is best suited for their specific needs?
(A) I-DAPT Health Tech Hackathon
(B) Support for International Patent Protection in Electronics and Information Technology (SIP-EIT)
(C) Venture Capital Assistance Scheme
(D) Startup India Single Use Plastic International Challenge

Oct/Nov 2011

93. 'SolarClean' is participating in the NCL - IIT BHU Cleantech Innovation Challenge 2022 to develop a reliable robotic arm for mining areas. According to the specific problem statements of the NCL challenge, what must be the primary operational capability of this robotic arm while cleaning solar panels?
(A) It must utilize high-pressure chemical solvents exclusively.
(B) It must be manually operated by at least three technicians simultaneously.
(C) It must draw power directly from the national grid while operating.
(D) It must execute the cleaning process entirely without the use of water.

May/June 2015

94. A qualifying startup incurred significant losses in its early years. Later, 60% of the voting power changed hands, breaking the "continued 51% shareholding" condition. Under Section 79 provisions, can the startup still carry forward its losses?
(A) No, breaking the continued 51% shareholding condition immediately nullifies all carry-forward benefits.
(B) Yes, because startups are exempt from all loss carry-forward restrictions unconditionally.
(C) Yes, a qualifying startup may carry forward such losses if they meet Condition 2 regarding shareholders holding the same number of shares on the final day of the preceding fiscal year.
(D) No, because losses can only be carried forward if 100% of the voting power remains unchanged perpetually.

Oct/Nov 2022

95. An individual investor assumes they can directly buy startup equity shares from the SIDBI Fund of Funds Scheme (FFS). Why is this assumption structurally incorrect?
(A) Because the FFS does not make direct investments in new businesses; it provides capital to alternative investment funds.
(B) Because the FFS strictly limits its investments to public sector undertakings (PSUs).
(C) Because the FFS provides loans and debt financing only, never equity capital.
(D) Because the FFS exclusively funds startups established outside of India.

May/June 2007

96. Under the NCL Cleantech Innovation Challenge, there is a push to develop an integrated framework providing NCL with the best business practices globally. Which standard framework is specifically mentioned for this alignment?
(A) GAAP (Generally Accepted Accounting Principles)
(B) ESG (Environmental, Social, and Governance)
(C) ISO 9001 (Quality Management Systems)
(D) Basel III norms

Oct/Nov 2009

97. What is the maximum duration allowed for a convertible note to be repayable or convertible into equity shares to remain exempted from the deposit definition under the MCA relaxation?
(A) 10 years from the date of issue
(B) 3 years from the date of issue
(C) 5 years from the date of issue
(D) 7 years from the date of issue

NODIA

IV. The number of jobs created by startups and the turnover rate of new businesses must be tracked.

Which of the statements given above are correct?

(A) I, II, and III only
(B) II, III, and IV only
(C) I, II, and IV only
(D) I, II, III, and IV

Oct/Nov 2019

87. How can 'FinTech Solutions' claim an exemption from the tax liability for issuing shares above their fair market value under Section 56(2)(viib)?

(A) By transferring 10% of the raised capital directly to the DPIIT fund.
(B) On the basis of a self-declaration submitted to the authorities as a recognized startup.
(C) By obtaining a direct endorsement letter from the Prime Minister's Office.
(D) By registering as a Non-Banking Financial Company (NBFC) prior to the share issuance.

May/June 2021

88. Consider the following statements regarding the NCL - IIT BHU Cleantech Innovation Challenge 2022:

I. It aims to instil a culture of product innovation and problem solving regarding real-world issues experienced by the mining industry.
II. One problem statement involves the development of an automatic seed ball forming machine using clay and manure.
III. It calls for the development of an autonomous or wirelessly piloted underwater drone for flooded mines.
IV. A drone-based surveillance and quick response system will be developed to strengthen security in mining areas.
V. It involves creating a holistic skill development approach in NCL oriented on the concept of "strategic CSR."

Which of the statements given above are correct?

(A) I, II, III, and V only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2005

89. A tech startup, 'Aura Innovations', was incorporated as a private limited company on 10th May 2015. They have developed a scalable software solution for the healthcare sector. For the financial year 2020-21, their turnover reached Rs. 105 crore. They applied for recognition as a startup in July 2022. Based on the expanded startup definition, will 'Aura Innovations' be recognized as a startup in July 2022?

(A) Yes, because they are within ten years of incorporation and their current year turnover is not verified.
(B) No, because their turnover for the financial year 2020-21 exceeded Rs. 100 crore.
(C) Yes, because software solutions automatically qualify regardless of turnover limitations.
(D) No, because they have already completed five years from the date of incorporation.

May/June 2013

90. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): Upon the appointment of an insolvency professional for a startup winding down on a fast-track basis, the promoters and the management are permitted to concurrently run the business.

Reason (R): The insolvency professional is solely responsible for liquidating assets and paying creditors within six months of appointment.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2010

91. A private limited startup receives an investment of Rs. 30 lakhs in a single tranche from an individual through a convertible note repayable within 8 years. Under the modified Companies (Acceptance of Deposits) Rules, 2014, does this amount qualify as a 'deposit'?

(A) Yes, because any amount exceeding Rs. 10

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(D) The EAC will replace the entire management team of the incubator without altering funding schedules.

May/June 2005

82. Consider the following statements regarding the Expert Advisory Committee (EAC) under the Startup India Seed Fund Scheme:

I. The EAC evaluates and shortlists incubators for the purpose of allotting seed money.
II. The EAC monitors progress and takes necessary actions for the systematic utilisation of funds.
III. The Chairman and Financial Advisor participate as members of the EAC.
IV. A representative of NITI Aayog is a designated member of the EAC.
V. A representative of the Department of Science and Technology participates as a member.

Which of the statements given above are correct?

(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2013

83. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): At the beginning, startups face high uncertainty and have high rates of failure, but a minority of them do go on to be successful and influential.

Reason (R): Startups refer to new businesses that intend to grow large beyond the solo founder, seeking funding from a number of sources due to large startup expenses and little income.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2018

84. 'EcoBuild', a DPIIT-recognized startup, is bidding for a public procurement tender that mandates an earnest money deposit (EMD) of Rs. 5 lakhs. Under Rule 170(1) of GFR 2017, how is 'EcoBuild' positioned regarding this requirement?

(A) 'EcoBuild' must pay double the EMD to prove financial stability since it is a recently established business entity.
(B) 'EcoBuild' must submit 50% of the required EMD as a special fiscal concession provided specifically for startups.
(C) 'EcoBuild' enjoys an absolute exemption from the requirement to submit an earnest money deposit or bid security.
(D) 'EcoBuild' must replace the EMD requirement with a personal guarantee from the company founders to remain eligible.

Oct/Nov 2014

85. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): The provision of seed capital at the early stages of a startup has the potential to have a multiplier impact in the validation of business concepts, leading to the production of employment opportunities.

Reason (R): The seed and proof-of-concept development stages of the startup ecosystem often face insufficient funding, causing the failure of many concepts to mature into successful enterprises.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2008

86. Consider the following indicators required by incubators for beneficiary startups to ensure successful implementation:

I. The status of the proof-of-concept phase and prototype development phase must be recorded.
II. The degree to which the market launch is progressing must be monitored.
III. The amount of funding obtained from angel investors, loans, or venture capital must be recorded.

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May/June 2019

98. Within the SIDBI FFS architecture, what is the specific term used to describe the SEBI-registered alternative investment funds that receive capital from FFS and subsequently make direct investments into startups?
(A) Sovereign Wealth Funds
(B) Daughter funds
(C) Microfinance Institutions
(D) Angel Networks

Oct/Nov 2016

99. Under the Venture Capital Assistance Scheme utilized by agriculture graduates, who specifically provides the interest-free loan to make up for the shortfall in capital requirements?
(A) SEBI-registered alternative investment funds (AIFs)
(B) National Small Industries Corporation (NSIC)
(C) Science and Engineering Research Board (SERB)
(D) Small Farmers' Agribusiness Consortium (SFAC)

May/June 2022

100. To satisfy Condition 2 for carrying forward losses under Section 79 despite a change in voting power, what must be structurally true regarding the company's shareholders on the final day of the preceding fiscal year?
(A) Fifty percent of the company's shareholders must have sold their shares to a government entity for the purpose of liquidation.
(B) The founders must have completely liquidated their holdings to venture capitalists on the final day of the fiscal year.
(C) The company must have transitioned from a private limited company to a public limited company by the final day of the fiscal year.
(D) 100% of shareholders continued to hold the same number of shares on the final day of the preceding fiscal year.

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I. The net consideration that results from the transfer must be utilised for subscription in the equity shares of an eligible startup company.
II. The eligible startup must utilise the amount for the purchase of new property within one year of the date the assessee subscribes in equity shares.
III. At least 51% of voting power must be beneficially held by the same individuals in the year of set-off who held them on the last day of the year the loss was incurred.
IV. On the final day of the preceding fiscal year, 100 percent of the company's shareholders had to continue to hold the same number of shares.
V. The losses need to have been incurred during the period of seven years commencing with the year the company was incorporated.

Which of the statements given above are correct?
(A) I, II, III, and IV only
(B) I, III, IV, and V only
(C) I, II, III, IV, and V
(D) II, III, IV, and V only

May/June 2020

62. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): Bootstrapping is often the first choice of funding that the vast majority of entrepreneurs choose in the Idea Phase.
Reason (R): Bootstrapping involves raising massive amounts of capital through public stock exchanges (IPOs) ensuring maximum liquidity for the founders immediately.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2007

63. Consider the following statements regarding the States Startup Ranking framework:
I. It was established in April 2017 with the intention of harnessing the force of competitive unionism.
II. It raises awareness regarding the volume and scope of state-driven initiatives.
III. The ranking framework is based on exactly seven reform areas.
IV. Support for incubation, support for funding, and access to markets are among the essential reform areas.

Which of the statements given above are correct?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

May/June 2014

64. A registered startup 'FinTech Solutions' issued equity shares to a resident angel investor at Rs. 300 per share, while the Fair Market Value (FMV) was Rs. 100 per share. The assessing officer seeks to tax the excess Rs. 200 per share. Under which specific section of the Income Tax Act was this anti-evasion provision implemented by the Finance Act 2012?
(A) Section 80-IAC
(B) Section 54 GB
(C) Section 56(2) (viib)
(D) Section 170(1)

Oct/Nov 2017

65. The following question consists of two statements — Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): The government introduced the "Startup India" initiative in January 2016 to promote long-term economic growth and provide countless job possibilities.
Reason (R): The government's goal was to inspire creative genius to conjure up ideas, act on them, and turn them into profitable ventures.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2011

66. Once 'AgriGrowth' successfully tests the product and requires investment capital for market entry,

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8. (B) It included 19 recommendations across financial incentives, industry collaboration, and simplification.
The Startup India Action Plan, unveiled on January 16, 2016, serves as a single overarching policy framework to foster entrepreneurship. It consists of 19 specific recommendations covering key areas such as financial incentives, industry-academia collaboration, and regulatory simplification. This comprehensive plan aims to build a strong ecosystem that supports the sustainable growth of innovative startups in India.

9. (B) Startups are allowed to wind up their activities within 180 days, similar to the timeline required for regular enterprises.
Under the Insolvency and Bankruptcy Code 2016, startups are categorized as Fast Track Firms, allowing them to wind up activities within 90 days. This is significantly faster than the 180-day timeline required for regular enterprises. Once an insolvency professional is appointed, they take charge of liquidating assets and paying creditors, while the original promoters cannot run the business.

10. (C) Rs. 10,000 crore
The Government of India established a Fund of Funds for Startups with a total corpus of ten thousand crore rupees to provide equity capital. This fund is managed by the Small Industries Development Bank of India. It does not invest directly in startups but provides capital to SEBI-registered alternative investment funds, which then invest in high-potential new businesses.

11. (D) The total portfolio of the lending institution should have a ratio of gross non-performing assets to gross advances that is strictly higher than 15 percent.
To be eligible for the IREDA NCEF Refinance Scheme, scheduled commercial banks must meet specific financial health criteria. These include maintaining a profit for the previous three years and having no accumulated losses. Additionally, their capital adequacy ratio must comply with regulatory norms. The requirement for gross non-performing assets to be higher than fifteen percent is incorrect and not a parameter.

12. (C) A financial incentive granted by an organization to promote a specific goal without requiring payback.
A grant represents a financial award given by a government, foundation, or organization to support a specific project or initiative. Unlike debt financing, it does not involve repayment of the principal amount or interest. Furthermore, unlike equity financing, the recipient is not required to relinquish any ownership stake in the enterprise, making it a highly desirable early-stage funding source.

13. (A) Early-stage micro and small enterprises are eligible for a Provisional Registration certificate valid for one year.
The Single Point Registration Scheme allows micro and small enterprises that have started commercial production but have not completed one year of operation to obtain a Provisional Registration certificate. This certificate is valid for exactly one year. It facilitates participation in government procurement by exempting these small businesses from certain requirements, thereby supporting their growth during the initial operational phase.

14. (C) By providing a venue for stakeholders to collaborate and promote entrepreneurship through knowledge exchange.
The Shanghai Cooperation Organisation (SCO) Startup Forum is designed to create a collaborative environment where stakeholders from member states can exchange knowledge and best practices. By providing a dedicated venue for interaction, the forum aims to promote entrepreneurship and help startups scale their operations. It focuses on building bridges between ecosystems rather than imposing uniform tax or regulatory codes.

15. (D) Guarantee of immediate venture capital funding without proof of concept.
Startups encounter numerous hurdles such as fierce competition, lack of market demand, ineffective marketing, and the difficulty of winning customer trust. Time management and productivity are also significant internal challenges. However, there is no guarantee of immediate venture capital funding without a proof of concept, as investors typically require evidence of viability before committing capital to a venture.

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the startup transition from the development phase to full-scale market operations.

67. (D) I, II, III, and IV
Startups recognized as Fast Track Firms under the Insolvency and Bankruptcy Code can complete the winding-up process in ninety days, compared to one hundred eighty days for regular firms. During this period, an insolvency professional is appointed to liquidate assets and pay creditors within six months. Crucially, the original promoters and management are not permitted to run the business once the process begins.

68. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Startups are indeed exempt from tax on share issuance above fair market value based on self-declaration under Section 56(2)(viib). It is also true that this section was originally intended to discourage the use of unaccounted money in closely held companies. However, the reason for the original anti-evasion law does not explain why startups are currently granted an exemption from it.

69. (A) They will not be recognized because they have crossed the ten-year limit from the date of incorporation.
According to the expanded definition of a startup, an entity remains a startup for a maximum period of ten years from its date of incorporation. Since 'Aura Innovations' was incorporated on May 10, 2010, they will have exceeded the ten-year limit by July 2022. Regardless of their turnover remaining below one hundred crore rupees, they no longer qualify for recognition based on the tenure.

70. (C) I, II, III, IV, and V
A comprehensive pitch presentation must cover several key areas to be effective. It should emphasize significant aspects of the business and clearly state the problem being solved. Additionally, it must outline the business model, the technology used, and provide a timeline for execution. Concluding with an executive summary and a call for action ensures that potential investors have a clear path forward.

71. (A) It must return the unutilized monies to the DPIIT.
Under the rules of the Seed Fund Scheme, incubators are responsible for the timely and systematic utilization of allocated funds. If an incubator fails to fund startups using the allocated money within a period of three years, the legal requirement is to return the unutilized balance to the Department for Promotion of Industry and Internal Trade (DPIIT). This ensures funds are redistributed effectively.

72. (D) I, II, III, and IV
The Startup India Yatra involves a mobile van travelling through Tier 2 and Tier 3 cities to record innovative ideas from aspiring entrepreneurs. The programme features boot camps, awareness workshops, and pitching sessions for idea validation. Its overarching mission is to eventually visit every district in the country to ensure that the startup ecosystem and its benefits reach every corner of the nation.

73. (D) Assertion (A) is false, but Reason (R) is true.
The assertion is false because incubators are permitted to use the allocated management fee for administrative expenses related to the scheme. The reason is true as it correctly identifies that five percent of the grant-in-aid is designated as a management fee. This fee is used for selecting startups, conducting due diligence, monitoring success, and covering the necessary administrative costs of managing the fund.

74. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Startups are generally granted an exclusion from business inspections for three to five years to promote ease of operations. However, an inspection can still occur if there is a verifiable allegation of a breach that is approved by a higher-level officer. Both statements are true as they describe the policy and its exception, but the exception itself does not explain the initial policy.

75. (D) Up to Rs. 20 lakhs
The Startup India Seed Fund Scheme provides specific financial assistance for different stages of a startup's development. For early-stage milestones such as validating a proof of concept, developing a prototype, or conducting product

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24. (D) The award strictly excludes startups developing innovative technologies, solutions, and products from India to the rest of the world.
The National Startup Awards are designed to recognize and reward exceptional startups and ecosystem enablers that contribute significantly to the economy. The programme values ventures that demonstrate a measurable positive impact on society. Contrary to the incorrect statement, the award actively encourages and includes startups that develop innovative technologies and solutions in India for global markets and scaling.

25. (B) An entity is a startup up to ten years from incorporation with turnover not exceeding Rs. 100 crore.
Under GSR Notification 127 (E), the definition of a startup was expanded to provide more entities with government benefits. An entity is now considered a startup for up to ten years from its date of incorporation or registration. Additionally, the annual turnover limit for any financial year since incorporation must not exceed one hundred crore rupees for the entity to qualify.

26. (D) Borrowing money from a lender and paying it back with interest within a predetermined amount of time.
Debt financing involves borrowing capital from a lender, such as a bank or a non-banking financial company, with the obligation to repay the principal along with interest. This repayment occurs over a predetermined period. Unlike equity financing, debt financing does not require the entrepreneur to give up any ownership or voting rights in the company, though it requires collateral.

27. (A) Exclusion from any business inspections for a period of 10 to 15 years.
Startups recognized under the government initiative enjoy several benefits, such as priority in public procurement, an eighty percent discount on patent registration fees, and self-certification for labour and environmental laws. While they are granted an exclusion from inspections for three to five years, there is no provision for a ten to fifteen-year inspection holiday. This ensures continued regulatory oversight.

28. (A) Rs. 10 crore
The Technology Development Fund is aimed at promoting self-reliance in the defense sector by supporting the development of innovative technologies. Under this programme, funding is considered for specific projects with a total cost reaching up to a maximum of ten crore rupees. This financial support helps MSMEs and startups bridge the gap between initial research and the commercialization of defense technologies.

29. (C) Any entity formed by splitting up or reconstruction of a business already in existence shall be considered a startup.
The initial definition of a startup specified that an entity is recognized for up to five years from incorporation if its turnover does not exceed twenty-five crore rupees. It must focus on innovation and technology-driven products. However, the definition explicitly states that entities formed by splitting up or reconstructing an existing business are not considered startups for the purpose of this scheme.

30. (D) Because loans from banks, NBFCs, and other financial institutions do not dilute the equity of the business.
During the Series A stage, startups often seek a mix of venture capital and debt from banks or NBFCs. Business owners prefer loans because, unlike equity investments, debt financing does not require them to give up ownership shares. This allows the founders to retain more control over their company while obtaining the necessary capital to scale operations after market validation.

31. (C) II, V, IV, I, III
The typical chronological sequence for startup funding starts with the Idea Phase, where the concept is developed. This is followed by the Seed Stage for prototype validation. Next is the Series A Stage for market entry and scaling. The Scaling phase involves rapid expansion, and finally, Exit Options like IPOs or acquisitions provide liquidity for the investors and founders.

32. (B) Exit Avenues – Planning for perpetual non-transferable ownership without any possibility of selling the portfolio firm.
Investors evaluate startups based on several criteria, including problem-solving potential, team expertise, and scalability. However,

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exit avenues are crucial for investors as they represent the opportunity to sell their stake for a profit. Planning for perpetual, non-transferable ownership is contrary to the investor's outlook, as they typically seek liquidity through routes like public offerings, buybacks, or strategic acquisitions.

33. (B) To aid new businesses in India in establishing a proof of concept, developing prototypes, breaking into new markets, and conducting product tests.
The Startup India Seed Fund Scheme is designed to provide financial assistance to startups at the very early stages of their development. Its primary mission is to help new businesses establish a proof of concept, develop prototypes, conduct product testing, and enter new markets. By addressing the early-stage funding gap, the scheme enables innovative ideas to mature into successful, scalable enterprises.

34. (C) Both I and II
The I-DAPT Health Tech Hackathon focuses on identifying student innovators who are developing cutting-edge ideas in the fields of Med-Tech and Health-Tech. The eligibility criteria are broad, allowing high school students up to Class 12, as well as undergraduate and graduate students with backgrounds in science, engineering, or medicine to apply. This encourages a wide range of technological solutions for healthcare.

35. (A) P-1, Q-2, R-3, S-4
The NCL Cleantech challenge links specific technological solutions to mining industry problems. Autonomous underwater drones are used for inspecting flooded mines, while cage drones inspect dragline components. Automatic machines are required for forming seed balls from clay and manure to aid reforestation. Finally, robotic arms or bots are developed to clean solar panels efficiently without the use of water resources.

36. (D) I, II, and III
This scheme facilitates bank loans between ten lakhs and one crore rupees to support historically oppressed groups and women entrepreneurs. For non-individual enterprises, at least fifty-one percent of the shareholding must be held by an SC/ST person or a woman. The programme is specifically targeted at greenfield projects, which are the beneficiary's first venture into the manufacturing or service sectors.

37. (A) Providing a clear and concise presentation that emphasises the most significant aspects of the enterprise and answers maximum questions an investor might have.
When preparing pitch slides, an entrepreneur should focus on clarity and conciseness. The presentation must highlight the most significant aspects of the business, such as the problem it solves and its scalability, while preemptively answering potential investor questions. Avoiding unnecessary operational intricacies and including an executive summary ensures that the vision and value proposition are effectively communicated to stakeholders.

38. (A) P-1, Q-2, R-3, S-4
Each component of a pitch deck serves a specific purpose. The problem statement identifies societal or business issues, while the business model explains the revenue generation strategy. Team composition highlights the expertise of the individuals leading the venture. Finally, the executive summary provides a concise overview of the entire business and concludes with a specific call for action for investors.

39. (C) Both I and II
The Startup India Hub provides a comprehensive online platform for all stakeholders in the startup ecosystem. To simplify the recognition process and provide easier access to benefits, the government removed the mandatory requirement for a letter of recommendation from an incubator or industry group. This change has significantly reduced the administrative burden for new entrepreneurs seeking official recognition and support.

40. (B) P-2, Q-3, R-4, S-1
Different funding sources have distinct characteristics. Bootstrapping relies on internal profits and personal savings. Angel investors are private individuals providing capital for equity in high-potential firms. Venture capital funds are professionally managed pools of money for rapid development. Crowdfunding involves raising modest amounts from a large group of people

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via online platforms, democratizing the capital-raising process for entrepreneurs.

41. (D) I, II, and III
The Swayatt initiative facilitates e-transactions for startups, women, and youth on the Government e-Marketplace. It allows startups to conduct market trials with government buyers for approximately three months to demonstrate product efficacy. If a startup receives at least three favourable evaluations during this period, it is promoted to a full-time seller on the platform, enhancing its public procurement opportunities.

42. (C) An enterprise that is the beneficiary's first foray into the manufacturing, commercial, or service industries.
In the context of the financing scheme for SC/ST and women entrepreneurs, a greenfield enterprise refers to a completely new business venture. It must be the first time the beneficiary is entering the manufacturing, commercial, or service sectors. This requirement ensures that the financial support is used to foster new entrepreneurship rather than expanding existing businesses or reconstructing old ones.

43. (B) IISc Bangalore – Identified as one of the eight research parks established as of May 2021
As part of the Startup India initiative, several research parks were established to foster innovation through industry-academia collaboration. As of May 2021, IISc Bangalore was identified as one of the eight new research parks. These parks provide the necessary infrastructure and collaborative environment for startups to work alongside academic researchers on cutting-edge technology and product development.

44. (A) P-2, Q-1, R-3, S-4
International Startup Bridges are established to link the Indian startup ecosystem with global partners. The Indo-Sweden Mentor Link connects India with Sweden, while the India-Brazil Bridge partners with Brazil. The UK-India Startup Launchpad links with the United Kingdom, and the India-Korea Startup Hub focuses on collaboration with Korea. these bridges facilitate cross-border expansion and knowledge exchange for startups.

45. (B) II and III only
The SIDBI Fund of Funds for Startups (FFS) does not invest directly in individual businesses. Instead, it provides capital to SEBI-registered alternative investment funds, known as daughter funds. SIDBI is responsible for the selection of these daughter funds and monitoring how the committed money is distributed. This structure leverages the expertise of professional fund managers to support the broader startup ecosystem.

46. (B) To identify prospective business owners living in non-metropolitan areas across Tier 2 and Tier 3 cities and provide them with business incubation and mentoring.
The Startup India Yatra is a grassroots initiative designed to discover and nurture entrepreneurial talent in Tier 2 and Tier 3 cities across the country. By travelling to non-metropolitan areas, the programme provides local innovators with access to business incubation, mentoring, and workshops. This decentralizes the startup ecosystem and ensures that prospective business owners from all regions have support.

47. (C) Both I and II
Under the Seed Fund Scheme, each participating incubator must establish an Incubator Seed Management Committee (ISMC) consisting of industry experts to evaluate applications. The ISMC is tasked with selecting startups based on their potential and milestones. The committee is required to make its selection within forty-five days after receiving an application, ensuring a timely and professional evaluation process.

48. (A) P-4, Q-1, R-2, S-3
Various challenges focus on different sectors of innovation. The Incubator Grand Challenge targets capacity building for established incubation centres. Digital Demo Day focuses on VR, AR, and IoT technologies. The Ayushman PMJAY Challenge aims for efficient implementation of the Jan Arogya Yojana health scheme. Finally, the Single Use Plastic International Challenge seeks to reduce disposable plastics in the food and beverage industry.

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84. (C) 'EcoBuild' enjoys an absolute exemption from the requirement to submit an earnest money deposit or bid security.
Under Rule 170(1) of the General Financial Rules 2017, recognized startups are exempt from the requirement to submit an Earnest Money Deposit (EMD) or bid security when participating in public procurement tenders. This exemption is designed to reduce the financial burden on early-stage companies, allowing them to bid for government contracts without tying up their limited cash flow in bid securities.

85. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Providing seed capital at the early stages has a significant multiplier effect on business concept validation and job creation. This is because the early stages of the startup ecosystem often suffer from a "valley of death" where insufficient funding prevents innovative concepts from maturing. By bridging this gap, seed funding ensures that viable ideas have the resources to grow into successful businesses.

86. (D) I, II, and III only
To ensure the success of the Seed Fund Scheme, incubators must track several key performance indicators for beneficiary startups. These include the status of prototype development, progress in market launching, and the amount of external funding secured from other sources. Additionally, monitoring the number of jobs created and the turnover rate helps assess the overall economic impact and viability of the startups.

87. (B) On the basis of a self-declaration submitted to the authorities as a recognized startup.
Recognized startups can claim an exemption from the tax liability on shares issued above fair market value under Section 56(2)(viib) through a simple process. They must submit a self-declaration to the relevant authorities confirming their status and eligibility. This streamlined approach avoids the need for complex bureaucratic approvals, facilitating the infusion of capital from angel investors into high-growth potential businesses.

88. (D) I, II, III, IV, and V
The NCL Cleantech Innovation Challenge is a comprehensive programme targeting mining industry problems. It covers a wide range of innovations including automatic seed ball machines, autonomous underwater drones for flooded mines, and drone-based surveillance for security. It also emphasizes the development of holistic skills and best practices oriented toward Environmental, Social, and Governance (ESG) standards within the mining sector's operational framework.

89. (B) No, because their turnover for the financial year 2020-21 exceeded Rs. 100 crore.
To be recognized as a startup under the expanded definition, an entity's turnover must not have exceeded one hundred crore rupees in any financial year since its incorporation. Although 'Aura Innovations' is within the ten-year tenure limit, their turnover reached one hundred five crore rupees in the 2020-21 fiscal year, which disqualifies them from receiving startup recognition and its associated benefits.

90. (D) Assertion (A) is false, but Reason (R) is true.
The assertion is false because once an insolvency professional is appointed to handle a startup's winding-up, the original promoters and management are not permitted to continue running the business. The reason is true as it correctly states that the insolvency professional takes over the responsibility for liquidating assets and paying off creditors within the mandated six-month period following their official appointment.

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91. (B) No, because it is Rs. 25 lakhs or more via a single convertible note repayable within 10 years.
Under the modified Companies (Acceptance of Deposits) Rules, certain amounts received by startups are not considered deposits. Specifically, an amount of twenty-five lakh rupees or more received in a single tranche via a convertible note is exempt, provided the note is convertible into equity or repayable within ten years. Since the thirty lakh rupee investment meets these criteria, it is not classified as a deposit.

92. (C) Venture Capital Assistance Scheme
The Venture Capital Assistance Scheme is specifically designed to help agriculture graduates and other entrepreneurs set up agribusiness ventures. When a project faces a shortfall in capital requirements despite having

on deposits from members does not apply to these recognized startups.

58. (B) P-4, Q-2, R-3, S-1
The Venture Capital Assistance Scheme is managed by the Small Farmers' Agribusiness Consortium (SFAC). SIP-EIT falls under the Ministry of Electronics and Information Technology. The Biotechnology Ignition Grant (BIG) is handled by the Biotechnology Industry Research Assistance Council (BIRAC). Finally, the High Risk High Reward Research programme is managed by the Science and Engineering Research Board (SERB) under the Department of Science and Technology.

59. (C) Both I and II
Recent trends in India show that startup activity has been primarily concentrated in IT and knowledge-based sectors over the last six years. This growth has propelled India to become the third-largest startup ecosystem globally, trailing only the United States and China. The DPIIT recognition process has documented this expansion, highlighting the country's increasing prominence in the global innovation landscape.

60. (B) P-1, Q-2, R-3, S-4
For the Seed Fund Scheme, an incubator must be operational for at least two years and have a seating capacity for twenty-five people. It must have at least five startup companies actively participating in the incubation process. If the incubator has no government assistance, it must have at least ten physical startups undergoing incubation to satisfy the eligibility thresholds.

61. (C) I, II, III, IV, and V
These sections provide significant tax relief for startups. Section 54 GB allows capital gains exemptions if proceeds are used to subscribe to startup equity and the startup buys new property within a year. Section 79 allows for the carry forward of losses if fifty-one percent of voting power remains with the same individuals or if all original shareholders continue to hold their shares.

62. (C) Assertion (A) is true, but Reason (R) is false.
Bootstrapping is indeed the first choice for many entrepreneurs in the initial idea phase because it uses personal savings and profits. However, the reason provided is incorrect because bootstrapping does not involve raising capital through public stock exchanges or IPOs. Instead, it is characterized by internal funding and the avoidance of external capital or public market participation in early stages.

63. (D) I, II, III, and IV
The States Startup Ranking framework was established to encourage competitive federalism among Indian states. It increases awareness of state-level initiatives and evaluates performance based on seven specific reform areas. These essential areas include support for incubation, access to funding, and market access, providing a comprehensive metric for assessing the health of regional startup ecosystems across the country.

64. (C) Section 56(2) (viib)
Section 56(2)(viib) of the Income Tax Act was introduced by the Finance Act 2012 as an anti-evasion measure. It taxes the "excess" share premium when a closely held company issues shares to a resident at a price exceeding the fair market value. While designed to prevent money laundering, recognized startups are now granted exemptions from this provision to facilitate genuine investments.

65. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The "Startup India" initiative was launched in January 2016 with the strategic goal of fostering long-term economic growth and job creation. This objective is directly supported by the government's aim to inspire entrepreneurs to develop innovative ideas and transform them into profitable, scalable ventures. By nurturing creative genius and providing structural support, the initiative seeks to build a robust national economy.

66. (A) Up to Rs. 50 lakhs in the form of convertible debentures, debt, or debt-linked securities.
Under the Seed Fund Scheme, once a startup has successfully tested its product and is ready for market entry or commercialization, it can receive up to fifty lakhs in investment capital. This funding is typically provided through instruments like convertible debentures, debt, or other debt-linked securities. This support helps

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49. (A) Scaling Phase – Unofficial sources like friends and family primarily
During the scaling phase, a startup requires significant capital to expand its market reach and operations. At this stage, firms typically approach venture capital funds or large institutional investors rather than relying on unofficial sources like friends and family. Friends and family are usually primary sources during the very early idea or seed stages when the business is first forming.

50. (B) P-2, Q-3, R-4, S-1
Section 56(2)(viib) provides tax exemptions for share issuance above fair market value. Section 80-IAC allows income tax deductions for three consecutive years within a ten-year period. Section 54 GB offers capital gains tax exemptions when selling residential property to invest in startups. Rule 170(1) of GFR 2017 exempts startups from the requirement to submit earnest money deposits in government tenders.

51. (D) I, II, and III
The Extra Mural Research scheme, managed by the Science and Engineering Research Board, encourages both new and established researchers. While candidates must generally be Indian citizens, foreign nationals meeting specific eligibility criteria can also apply. The programme typically provides financial support for a period of three years, helping advance high-quality research and development across various engineering and scientific disciplines.

52. (D) II, I, IV, III, V
The fund-raising process begins by assessing the startup's specific financial needs. Next, an entrepreneur prepares a professional pitch deck to present the business vision. The process continues with targeting appropriate investors followed by due diligence conducted by those interested in the venture. Finally, the terms of the investment are finalized and documented in a formal term sheet.

53. (A) P-4, Q-3, R-2, S-1
The India Croatia Startup Challenge addresses various global issues through targeted categories. Clean Water and Sanitation addresses potential displacement due to water scarcity. Reduced Inequality focuses on integrating refugees into economies. Decent Work and Economic Growth seeks to improve worker skills in the on-demand economy. HAMAG-BICRO is the partner organization from Croatia that collaborates with Startup India on this initiative.

54. (A) Only I
The WING programme is a dedicated Women Capacity Development initiative that provides training and a platform for women-led businesses to thrive. It focuses on empowering female entrepreneurs through workshops and networking. While it supports women-led startups, the statement regarding a specific twelve-month paid virtual incubation programme in partnership with Zone Startups is not a standard part of the basic WING definition.

55. (A) Start-up India for Financing SC/ST and/or Women Entrepreneurs – Borrowers belonging to a scheduled caste, scheduled tribe, or women establishing a greenfield business
This specific financing scheme is tailored for borrowers who are women or belong to scheduled castes and scheduled tribes. It supports these groups in establishing greenfield businesses by providing bank loans. Other programmes like INSPIRE target schoolchildren, and the WING programme focuses specifically on women, while the Health Tech Hackathon is for students across science, engineering, and medical backgrounds.

56. (A) Approaching venture capital firms that have larger ticket sizes, as this is often the best time to do so.
Once a startup has successfully validated its market response and is in the scaling stage, it requires large amounts of capital for rapid growth. This is the most appropriate time to approach venture capital firms that offer larger ticket sizes. These investors provide the necessary resources to expand operations, enter new markets, and commercialize products on a significant scale.

57. (D) I, II, and III
The Ministry of Corporate Affairs has relaxed rules for private startups regarding convertible notes. To be exempt from the definition of a deposit, a convertible note must be for at least twenty-five lakhs in a single tranche and convertible or repayable within ten years. Furthermore, the usual thirty-five percent limit

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testing, an incubator can disburse a grant of up to twenty lakhs rupees. This non-repayable grant is designed to help entrepreneurs turn their ideas into tangible, testable products.

76. (A) I, II, and III only
Funding under the Seed Fund Scheme is categorized based on the startup's needs. A grant up to twenty lakhs is for prototype development, while up to fifty lakhs is for market entry and expansion. The latter can be provided as debt or convertible securities. The statement that seed funds can be used for purposes unrelated to the milestones is incorrect, as funds are tied to progress.

77. (D) Rule 173 of GFR 2017 relieves recognized startups from conditions of past turnover and prior experience in tenders.
To encourage startup participation in public procurement, Rule 173 of the General Financial Rules (GFR) 2017 allows government departments to relax the criteria of prior experience and prior turnover. As long as the startup meets the necessary quality and technical specifications, it cannot be disqualified based solely on its lack of historical revenue or years in operation. This levels the playing field for new firms.

78. (D) I, II, III, IV, and V
The Startup India Single Use Plastic International Challenge offers a comprehensive support package. This includes individualized guidance from industry professionals, funding for ten pilot projects, and opportunities to showcase project impacts. Additionally, the programme facilitates professional networking and provides a specific chance to conduct a pilot project with food and beverage partners in Goa, helping startups scale sustainable solutions.

79. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The SIP-EIT programme provides financial assistance to technology startups and MSMEs for international patent filing. This support is directly linked to the programme's goal of fostering innovation by helping domestic companies recognize and protect their intellectual property globally. By reducing the financial burden of international filings, the scheme enables startups to compete effectively and grow in the global ICTE sector.

80. (C) Both Assertion (A) and Reason (R) are true, and Reason (R) is false.
Micro and small businesses that have not completed one year of commercial production are eligible for a Provisional Registration certificate under the Single Point Registration Scheme. However, the reason is false because the Provisional Registration certificate is valid for only one year, not ten. Its purpose is to provide short-term assistance to new enterprises as they establish themselves in government procurement markets.

81. (C) The incubator will not be allowed for any further drawdowns.
Under the Seed Fund Scheme, the Expert Advisory Committee monitors the progress and fund utilization of participating incubators. If an audit reveals that an incubator has utilized less than fifty percent of its previous instalment after a significant period, it indicates a failure in the systematic distribution of funds. Consequently, the incubator is barred from any further drawdowns of the allocated money.

82. (D) I, II, III, IV, and V
The Expert Advisory Committee (EAC) plays a central role in managing the Seed Fund Scheme. It is responsible for shortlisting incubators and monitoring the utilization of funds. The committee is highly representative, including the Chairman, Financial Advisor, and designated members from NITI Aayog, the Department of Science and Technology, and other relevant government departments to ensure broad institutional oversight.

83. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Startups are characterized by high uncertainty and failure rates in their early stages, yet a successful few can become highly influential. This is explained by the fact that startups are designed for high growth beyond the original founder. They require significant external funding to manage large initial expenses during periods of little income, reflecting their ambitious and inherently risky nature.

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16. (A) A brief presentation providing investors with an overview of the business plan and vision.
A pitch deck is a concise presentation used by entrepreneurs to provide potential investors with a high-level overview of their business plan and vision. It typically includes key elements like the problem statement, business model, team profiles, and financial projections. The goal is to spark interest and secure meetings for further discussion regarding investment opportunities and strategic growth.

17. (A) The tax burden at the time of Exercise was reduced in the Budget for 2020 by completely eliminating the payment of all taxes permanently.
While the 2020 Budget allowed for the deferral of tax payments on Employee Stock Option Plans (ESOPs), it did not eliminate the tax liability permanently. Taxes on ESOPs are still applicable but can be delayed for five years, until the employee leaves the company, or until the shares are sold. ESOPs are subject to double taxation at exercise and sale.

18. (A) 48-72 working hours
The Department for Promotion of Industry and Internal Trade (DPIIT) has streamlined the recognition process for startups to improve the ease of doing business. For applications that are complete and meet all eligibility criteria, the procedure aims to review and grant certificates within forty-eight to seventy-two working hours. This rapid processing is facilitated through a dedicated online platform for entrepreneurs.

19. (D) Coverage of guarantee for about 15,000 crores for 3,000 startups, with the average loan amount to eligible borrowers being 5 crore.
The credit guarantee programme for startups aims to provide financial security to lenders, thereby facilitating easier access to capital. It offers coverage for a total guarantee amount of approximately fifteen thousand crore rupees, targeting three thousand startups. Under this scheme, the average loan amount provided to eligible borrowers is five crore rupees, helping bridge the funding gap for growing enterprises.

20. (A) To encourage innovation and enable growth in the ICTE sector by recognizing global intellectual property.
The Support for International Patent Protection in Electronics and Information Technology (SIP-EIT) programme is designed to foster innovation within the ICTE sector. Its primary goal is to help MSMEs and startups recognize the importance of global intellectual property and provide financial assistance for filing international patents. This encourages domestic companies to protect their inventions and compete in the global marketplace.

21. (C) Direct equity investments injected previously by a State Government's specialized startup investment fund.
The Startup India Seed Fund Scheme excludes certain types of government support from its ten lakh rupee financial limit, such as prize money, subsidized lab access, and founder allowances. However, direct equity investments from specialized state government startup funds are counted toward this limit. This ensures that seed funding is prioritized for startups that have not yet received significant equity-based capital.

22. (B) January 16, 2016
The Startup India Action Plan was officially unveiled on January 16, 2016, by the Government of India. This landmark initiative was launched to build a strong ecosystem that is conducive to the growth of startups and to drive sustainable economic development. The plan introduced several measures, including tax exemptions and simplified regulations, to encourage innovation and generate large-scale employment opportunities.

23. (D) To help entrepreneurs build businesses by offering capital, networking, mentoring, and advisory support.
Business incubators are established to provide a supportive environment for early-stage companies. They assist entrepreneurs by offering essential resources such as seed capital, professional networking opportunities, mentoring from industry experts, and strategic advisory support. These institutions play a critical role in the startup ecosystem by helping new ventures validate their business models and successfully navigate the initial stages of growth.

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a bankable Detailed Project Report (DPR), the Small Farmers' Agribusiness Consortium (SFAC) provides an interest-free loan. This financial assistance helps bridge the funding gap and ensures the successful execution of agricultural projects.

93. (D) It must execute the cleaning process entirely without the use of water.
The NCL - IIT BHU Cleantech Innovation Challenge specifies that the developed robotic arm for solar panel cleaning must be water-efficient. The primary operational requirement is that the cleaning process must be executed without the use of any water. This focus on water conservation is critical for mining areas where water resources may be scarce or better utilized for other essential industrial processes.

94. (C) Yes, a qualifying startup may carry forward such losses if they meet Condition 2 regarding shareholders holding the same number of shares on the final day of the preceding fiscal year.
Section 79 provides a special concession for qualifying startups to carry forward losses even if fifty-one percent of voting power changes. This is possible if Condition 2 is met: all shareholders who held shares on the last day of the year the loss was incurred continue to hold those shares on the last day of the preceding fiscal year. This facilitates continuity for growing firms.

95. (A) Because the FFS does not make direct investments in new businesses; it provides capital to alternative investment funds.
The SIDBI Fund of Funds Scheme (FFS) is structured as a "fund of funds," meaning it does not invest directly in individual startups. Instead, it allocates capital to professional venture capital funds, known as daughter funds, which are registered with SEBI. These daughter funds then conduct their own due diligence and make direct equity investments into high-potential startups across various sectors.

96. (B) ESG (Environmental, Social, and Governance)
The NCL Cleantech Innovation Challenge aims to integrate global best practices into the mining industry through a strategic framework. The specifically mentioned standard is the ESG (Environmental, Social, and Governance) framework. This alignment ensures that the mining operations and the business practices of the National Coalfields Limited are sustainable, socially responsible, and maintain high standards of corporate governance in their development.

97. (A) 10 years from the date of issue
To benefit from the relaxation provided by the Ministry of Corporate Affairs, a startup's convertible note must be repayable or convertible into equity shares within a specific timeframe. The maximum allowed duration for this transition is ten years from the date of the note's issuance. This extended tenure provides startups with significant flexibility in managing their capital structure and attracting long-term investments from individuals.

98. (B) Daughter funds
In the architecture of the SIDBI Fund of Funds Scheme, the term "daughter funds" is used to describe the SEBI-registered alternative investment funds. These daughter funds receive capital commitments from the central Fund of Funds and are responsible for identifying, evaluating, and investing in individual startups. This tiered structure allows the government to support thousands of startups through specialized, professionally managed private investment vehicles.

99. (D) Small Farmers' Agribusiness Consortium (SFAC)
Under the Venture Capital Assistance Scheme, the interest-free loan is provided by the Small Farmers' Agribusiness Consortium (SFAC). This organization, under the Ministry of Agriculture and Farmers Welfare, supports agribusiness ventures by bridging the gap between the entrepreneur's contribution and the bank's loan. This financial assistance is crucial for agriculture graduates who need additional capital to implement their bankable project reports successfully.

100. (D) 100% of shareholders continued to hold the same number of shares on the final day of the preceding fiscal year.
To satisfy Condition 2 for carrying forward losses under Section 79, a startup must maintain a specific shareholding structure despite changes in voting power. It requires that all individuals who were shareholders on the last day of the year

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condense to a permanent six-month rhythm for all stages.
(B) Companies and funds will preserve cash reserves for longer due to market uncertainty.
(C) The number of special-purpose acquisition corporations (SPACs) will continue to increase drastically after 2021.
(D) Venture capital investments will centralize exclusively back into the Silicon Valley region.

Oct/Nov 2025

47. An investment professional joins a mid-market private equity firm with deal values ranging from $50 million to $500 million. Based on standard industry compensation, what earning potential does a principal typically possess at such a firm?
(A) Fetching wages in the low six figures
(B) Having the potential to earn more than $1 million
(C) Earning approximately $50,000 per year
(D) Being restricted to a flat salary without any performance bonus

May/June 2012

48. Which of the following correctly pairs an entity with its position in the Private Equity Structure?
(A) Private Equity Firm – Limited Partnership Entity
(B) Sovereign Wealth Funds – Limited Partners (Investors)
(C) Endowments – General Partner Management
(D) Private Equity Fund – General Partner Vehicle

Oct/Nov 2014

49. An investor is analyzing the performance of real estate investment trusts (REITs) in India. During the Financial Year 2021-22, how much amount was raised by REITs compared to the Rs. 14,300 crore raised in FY 2020-21?
(A) Rs. 949.99 crore
(B) Rs. 1,430 crore
(C) Rs. 47,088.98 crore
(D) Rs. 18,789.24 crore

May/June 2019

50. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): In the years following the 2008 global financial crisis, private equity firms saw an increase in activity accounted for by private credit funds.
Reason (R): Private credit funds give a line of credit to businesses unable to access corporate bond markets and operate with shorter time periods.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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Oct/Nov 2006

51. Which of the following international private equity and investment management companies has its headquarters located in Hong Kong and manages assets of over USD 20 billion?
(A) CLSA Capital Partners
(B) Everstone Capital
(C) CVC Capital Partners
(D) Baring Private Equity Asia

May/June 2021

52. How is private equity accurately defined in the context of alternative investments?
(A) A publicly traded form of capital where retail investors buy minor shares on an open exchange.
(B) A government-sponsored fund utilized exclusively to rescue bankrupt public sector banking institutions.
(C) A short-term loan instrument designed to cover monthly payroll deficiencies during seasonal slumps.
(D) Non-public capital used to invest in private firms or buyout public corporations.

Oct/Nov 2010

53. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): It may be highly challenging to liquidate holdings in private equity.
Reason (R): In contrast to public markets,

CHAPTER 21

Private Equity and Venture Capital

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Oct/Nov 2014

1. Which of the following statements is correct regarding the screening and shortlisting phase of obtaining venture capital funding?

(A) The genesis of such deals strictly comes from investment banking advertisements and public listings.

(B) Business owners are exclusively required to present physical prototypes rather than providing a concise profile.

(C) Exhaustive risk management and contract negotiation are completed and finalized during this initial phase.

(D) Projects are categorized by criteria such as market scope, technology, and geographical location.

May/June 2021

2. Consider the following statements regarding the jobs handled by General Partners (GPs):

I. They arrange capital by contacting potential limited partners (LPs) and selling them on the fund's concept.

II. They investigate new companies, known as "Due Diligence", and put money into those companies.

III. They are entirely removed from the exit process, leaving the sale of the company exclusively to the founders.

Which combination of the above statements is correct?

(A) I and II

(B) II and III

(C) I and III

(D) I, II, and III

Oct/Nov 2005

3. Consider the following statements regarding the existence of venture capital:

I. Banks typically only provide financing to newly established companies if those companies already possess tangible assets to use as collateral for the loan.

II. Venture capitalists avoid the high-risk environment and prefer traditional financial lending mechanisms.

Which of the statements given above is/are correct?

(A) Only I

(B) Only II

(C) Both I and II

(D) Neither I nor II

May/June 2009

4. Consider the following statements regarding Fees and Carry forward in a venture capital fund:

I. The "management fee" is typically equal to around two to three percent of the fund's total value on an annual basis.

II. "Carry" refers to the bonus based on the performance of the fund, from which general partners generally receive between 20 and 30 percent of the fund's profits.

Which of the statements given above is/are correct?

(A) Only I

(B) Only II

(C) Both I and II

(D) Neither I nor II

Oct/Nov 2023

5. An entrepreneur is evaluating financing options for a young, pre-profit business. The entrepreneur wishes to avoid the significant responsibility of paying regular interest. Based on this priority, which financing route is most appropriate?

(A) Securing a standard bank loan

(B) Engaging in venture capital investments

(C) Issuing corporate bonds

(D) Initiating a primary public offering

May/June 2017

6. Consider the following statements regarding the "Power Law" in venture capital:

I. It indicates that every single investment in a portfolio must be highly profitable.

II. One or two highly profitable investments can contribute to the overall return and make up for the failures of others.
III. Venture capitalists evaluate businesses targeting extremely huge markets with capacity for rapid expansion.

Which combination of the above statements is correct?
(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

Oct/Nov 2011

7. What is the primary focus of venture capital investors when contributing to new enterprises and start-up organisations?
(A) To acquire businesses that possess vast tangible assets to use as collateral for secured lending.
(B) To seek businesses with the potential to expand their operations over the long term.
(C) To strictly provide monetary compensation without offering any additional managerial experience.
(D) To focus entirely on public financial markets rather than engaging with private equity markets.

May/June 2005

8. What is the primary responsibility of an analyst at a venture capital company?
(A) To make binding investment decisions and sign the final term sheets.
(B) To identify opportunities, conduct research, and attend conferences.
(C) To act as a general partner and arrange capital from limited partners.
(D) To serve as an Entrepreneur In Residence and create another start-up.

Oct/Nov 2018

9. A general partner is establishing a new VC fund and is laying forth the specifics for limited partners. The partner must decide whether to invest in healthcare or software, and whether to focus on South Asia or Southeast Asia. This specific parameter is referred to as:
(A) Fund Size
(B) Fund Theme
(C) Fund Life
(D) Deal Structure

May/June 2024

10. Which of the following is a correct statement regarding the post-investment-related activities of a venture capitalist?
(A) The venture capitalist assumes full control of the day-to-day operations of the company.
(B) The venture capitalist terminates the board of directors and installs an entirely new management team.
(C) The venture capitalist is primarily concerned when there is a potential for a loss of financial resources.
(D) The venture capitalist ceases all involvement until the exit plan is executed.

Oct/Nov 2009

11. Which of the following best describes the value that venture capitalists contribute to a business in addition to financial backing?
(A) They guarantee total immunity from all future legal and corporate tax liabilities.
(B) They eliminate the necessity for the company to produce any viable commercial product.
(C) They replace the entire founding team within the first month of the initial investment.
(D) They provide network access, collaborations, and specialized staffing.

May/June 2013

12. All of the following are characteristics shared by private equity and venture capital EXCEPT:
(A) They are established as autonomous pools of capital managed by managers with significant financial incentives.
(B) They make investments in businesses that are either unable or not yet prepared to raise funds from the general public.
(C) They are subject to a vast number of highly stringent restrictions on the activities they engage in.
(D) They engage in active oversight of the enterprises in which they have invested.

Oct/Nov 2025

13. What is the primary objective of an Entrepreneur In Residence (EIR) working in a venture capital organisation?
(A) To develop a new start-up that will attract investment by the end of their term.
(B) To perform routine audits of the daily

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financial statements for the capital firm.
(C) To provide legal representation for the limited partners against the general partners.
(D) To manage the internal human resources department of the venture capital firm.

May/June 2019

14. A venture capital firm is planning its investment horizon for a newly acquired startup. Following typical industry standards, after how many years will the venture capitalists most likely aim to sell their ownership to make returns?
(A) One year
(B) Three years
(C) Five years
(D) Twelve years

Oct/Nov 2016

15. Match the individual events with their estimated probability of occurring based on standard venture capital success models:
List I: Event
P. Company has sufficient capital
Q. Management is capable and focused
R. Competitors behave as expected
S. Combined Probability of Success
List II: Probability
1. 17%
2. 50%
3. 80%
4. 100%
(A) P-3, Q-3, R-3, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-1, R-2, S-3
(D) P-2, Q-3, R-4, S-1

May/June 2023

16. Which entity was launched as a joint venture between ICICI limited and the Unit Trust of India in 1988 and later renamed to ICICI Venture?
(A) Technology Development and Information Company of India Limited (TDICI)
(B) Industrial Development Bank of India Limited (IDBI)
(C) Industrial Finance Corporation of India Limited (IFCI)
(D) Securities and Exchange Board of India (SEBI)

Oct/Nov 2007

17. A venture capital firm includes specific provisions in its deal structure to protect itself if the business secures a subsequent round of funding at a lower value. What are these clauses known as?
(A) Anti-dilution clauses
(B) Voting rights clauses
(C) Carry forward clauses
(D) Recapitalization clauses

May/June 2015

18. Arrange the following steps involved in obtaining venture capital funding in the correct chronological order:
1. The Final Deal Negotiations
2. Detailed Evaluation and rating of proposals
3. Screening and shortlisting
4. Exit Plan
5. Post-Investment-Related Activities
(A) 3, 2, 1, 5, 4
(B) 2, 3, 1, 4, 5
(C) 3, 1, 2, 5, 4
(D) 2, 1, 3, 4, 5

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Oct/Nov 2020

19. Which of the following is an incorrect pair regarding the structure of a venture capital firm?
(A) Limited Partners (LPs) – Sovereign wealth funds, endowments, and affluent families.
(B) General Partners (GPs) – Provide strategic assistance and referrals to portfolio companies.
(C) Principals – Senior members who hold authority but lack complete control over the overall plan.
(D) Associates – Exercise ultimate control over the operational policies of the VC fund.

May/June 2008

20. Which of the following is the correct pair of an Indian Venture Capital firm and its associated portfolio companies?
(A) Kalaari Capital – Cure.fit, Milkbasket, CashKaro, and Zivame
(B) Blume Ventures – Zomato, Snapdeal, Delhivery, and Licious
(C) Nexus Venture Partners – Dunzo, Unacademy, Instamojo, and Practo
(D) Kalaari Capital – WhiteHat Jr., Rapido, Olx, and Urban Company

Oct/Nov 2012

21. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): It is extremely challenging to create a successful firm, resulting in 75% of businesses backed by venture capital failing.
Reason (R): Venture capitalists inherently possess poor judgement and an inability to make sound financial decisions.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2010

22. What defines mezzanine financing in the context of venture capital financing?
(A) Financing at a low level specifically for the purpose of validating and developing a new business idea.
(B) Funding to support expansion after a company has achieved recent financial success.
(C) Initial investment which may include funding for manufacturing and early sales to initial customers.
(D) A second round of financing given to early stage enterprises that are selling items but not yet profitable.

Oct/Nov 2022

23. Which multinational corporation did Kohlberg Kravis & Roberts (KKR) agree to invest USD150 million in, taking a twenty percent ownership?
(A) Pepperfry.com
(B) Snapdeal
(C) Milkbasket
(D) JBF Industries Ltd

May/June 2018

24. A venture capital fund has an allotted lifespan of 10 years. What is the primary objective of the general partner during the last two to three years of this lifespan?
(A) To locate and invest in entirely new, early-stage businesses.
(B) To focus heavily on building the operational capacity of the portfolio businesses.
(C) To increase the management fee charged to the limited partners.
(D) To attempt to exercise the "exit" option and earn a profit for distribution.

Oct/Nov 2006

25. Match the roles at a Venture Capital firm with their descriptions:
List I: Roles
P. Associate
Q. Principal
R. Managing Partner
S. Venture Partner
List II: Descriptions
1. Responsible for generating new business opportunities and compensated by carry interest.
2. Has a say in investment decisions and the ability to weigh in on operational matters.
3. Arrives with a financial background and skills in creating relationships but does not participate in the decision-making process.
4. On the cusp of becoming partners and can act as a guide to help receive funding.
(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-4, R-2, S-1
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-1, R-4, S-3

May/June 2025

26. During the initial outset of the venture capital industry in India, what was the primary focus of the subsidiaries established by IDBI, ICICI, and the IFCI?
(A) Consumer services and consumer retail space
(B) Biotechnology and pharmaceutical startups
(C) Public sector disinvestment
(D) Large industrial concerns

Oct/Nov 2019

27. When compared to the return generated by public equity markets and debt markets, what is the predicted annual return range for venture capital?
(A) 8–10%
(B) 12–15%
(C) 25–35%
(D) 50–60%

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May/June 2007

28. Consider the following statements regarding the advantages and disadvantages of venture capital funding:

I. The business owner is in a less precarious situation because there is no responsibility to repay the investor's money.

II. The procedure is drawn out and difficult because there is a significant amount of risk involved.

III. The founder retains total independence and absolute control of the business after an investor becomes a part owner.

IV. Since investments are made with a long-term objective, the return of the earnings is often delayed.

Which combination of the above statements is correct?

(A) I, II, and III
(B) II, III, and IV
(C) I, II, and IV
(D) I, III, and IV

Oct/Nov 2024

29. How is the "Hurdle Rate" defined in the context of venture capital funding terms?

(A) The maximum allowable percentage of shares the founders can retain after funding.
(B) The exact management fee charged by the general partners on a recurring annual basis.
(C) The minimum annual return guaranteed for Limited Partners before profit sharing.
(D) The specific threshold at which a startup is legally required to launch an initial public offering.

May/June 2022

30. Match the following Indian Venture Capital Firms with their founders or specific details:

List I: Indian Venture Capital Firms

P. Blume Ventures
Q. Kalaari Capital
R. Nexus Venture Partners
S. Pepperfry.com investors

List II: Founders or Specific Details

1. Vani Kola
2. Goldman Sachs and Zodius Technology Fund
3. Karthik Reddy and Sanjay Nath
4. Successful entrepreneurs in enterprise technology and consumer internet

(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-3, R-2, S-4
(C) P-4, Q-2, R-1, S-3
(D) P-3, Q-4, R-1, S-2

Oct/Nov 2015

31. What is the fundamental difference in the liabilities of Limited Partners (LP) and General Partners (GP) in a private equity fund?

(A) LPs have full liability, while GPs have limited liability according to standard fund bylaws.
(B) Both LPs and GPs have limited liability within the framework of a traditional partnership.
(C) LPs hold 99% of shares with limited liability, while GPs hold 1% with full liability.
(D) LPs own 1% with full liability, while GPs own 99% with limited liability in most jurisdictions.

NODIA

May/June 2014

32. What is the most appropriate description of the primary objective behind a Leveraged Buyout (LBO)?

(A) To purely liquidate intangible assets such as patents without touching the existing workforce.
(B) To improve a firm's health for a resale profit or an initial public offering.
(C) To act as an angel investor donating capital to first-generation entrepreneurs in new markets.
(D) To invest exclusively in mutual funds to bypass direct corporate management responsibilities.

Oct/Nov 2010

33. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): It is anticipated that startup stock valuations will be brought down from their extreme highs.

Reason (R): Increases in market interest rates and high inflation typically lead to lower valuations for growth-oriented companies.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true,

in which the loss was incurred must continue to hold their shares on the final day of the preceding fiscal year, regardless of the overall voting distribution.

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Oct/Nov 2008

41. Which of the following is an incorrect pair of an indigenous Indian company dealing in private equity and its location?
(A) Kotak Private Equity – Mumbai
(B) True North's India Value Fund – Kolkata
(C) Chrys Capital Management – New Delhi
(D) Premji Invest – Bengaluru

May/June 2016

42. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): Biotechnology is considered an ideal candidate for special-purpose acquisition corporations (SPACs).
Reason (R): The majority of biotech is a capital-intensive industry, and many companies tend to go public with little or no revenue while in clinical trials.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2009

43. Match the process behind private equity with its corresponding detail:
List I: Process
P. Leveraged Buyouts
Q. Real Estate Private Equity
R. Fund of funds
S. Venture Capital
List II: Detail
1. Provides an alternative access point for investors unable to meet minimum criteria of some funds.
2. Includes Seed financing and Series A financing.
3. Utilizes an SPV and a combination of debt and equity, transferring debt to the acquired company.
4. Monies from investors are held in escrow for a period equalling several years; includes REITs.
(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

May/June 2023

44. Consider the following statements regarding the practice and development of Private Equity:
I. Valuations of private equity are not determined by the forces of the market.
II. The Glass-Steagall Act of 1933 encouraged the mega-consolidations manufactured by financial institutions.
III. Apple and Intel obtained necessary scaling money from the emerging venture capital ecosystem in the 1970s.
IV. During the golden years of private equity (2006-2008), each dollar of capital raised was leveraged by more than two dollars' worth of debt.
V. Businesses supported by private equity performed superior to their peers operating in the public markets according to institutional research.
Which combination of the above statements is correct?
(A) I, II, III, and V
(B) I, III, IV, and V
(C) II, III, IV, and V
(D) I, II, IV, and V

Oct/Nov 2018

45. Match the following international private equity players with their Ticket Sizes in India:
List I: International Private Equity Player
P. CVC Capital Partners
Q. The Blackstone Group
R. KKR & Company
S. Everstone Capital
List II: Ticket Size
1. USD 20 million – 75 million
2. USD 50+ million
3. USD 15+ million
4. USD 20+ million
(A) P-4, Q-2, R-3, S-1
(B) P-2, Q-4, R-1, S-3
(C) P-2, Q-1, R-4, S-3
(D) P-3, Q-4, R-1, S-2

May/June 2007

46. Which of the following statements correctly identifies a future prospect for venture capital as forecasted by Prime Movers Lab?
(A) Investment times and fund cycles will

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but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2020

34. Which of the following is an incorrect statement regarding the regulations and numbers associated with Alternative Investment Funds (AIFs) in India as per SEBI?
(A) SEBI introduced the Alternative Investment Funds Regulations in 2012.
(B) The investments as on 31st March 2021 amounted to Rs. 2,00,484 crore.
(C) AIF Regulations were brought in to regulate Venture Capital Funds and Private Equity Funds.
(D) Registered AIFs fell from 641 in March 2020 to 300 in March 2021.

Oct/Nov 2013

35. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): The price of a company's shares in private equity transactions is exclusively established by the forces of the open market.
Reason (R): The rights of shareholders in private equity are typically decided on a case-by-case basis through negotiation.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2011

36. All of the following industries or sectors are areas of focus for private equity firms like The Carlyle Group EXCEPT:
(A) Retail banking
(B) Consumer goods
(C) Healthcare
(D) Manufacturing

Oct/Nov 2017

37. Which of the following is the most appropriate indicator derived from the deal flow funnel of a venture capital firm?
(A) More than 50% of enterprises receive funding from venture capitalists.
(B) Every year, a partner will invest in roughly half of the thousands of businesses they consider.
(C) Only <1% of enterprises receive funding from venture capitalists.
(D) The investment committee approves 90% of all sourced deals.

May/June 2006

38. All of the following are recognized forms of funding through private equity EXCEPT:
(A) Funding in difficult times (Distress funding)
(B) Leveraged Buyouts
(C) Real Estate Private Equity
(D) Unrestricted sovereign bond issuance

Oct/Nov 2021

39. Which mechanism represents the most significant contributor to total revenue for private equity firms?
(A) Yield from primary retail deposits
(B) Interest earned from long-term treasury bonds
(C) Government subsidies for corporate restructuring
(D) Management fees charged to investors in a fund

May/June 2012

40. Consider the following statements regarding the sources of Private Equity:
I. Investment comes mostly from institutional investors and accredited individuals in a position to commit significant sums over extended periods.
II. Private equity investments typically result in immediate liquidity events within a few weeks of the transaction.
Which of the statements given above is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

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private equity lacks a ready-made order book that brings together buyers and sellers.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2005

54. Which of the following is a correct statement regarding the compensation structures within private equity firms?

(A) A private equity firm never deducts a percentage of the total earnings made from the sale of a business.
(B) Private equity firms guarantee associate roles an income exceeding $1 million in their first year.
(C) The fee structure of private equity companies frequently includes a management fee equal to 2% of assets under management.
(D) Performance fees are strictly prohibited in private equity structures.

Oct/Nov 2022

55. Consider the following statements regarding 'Funding in difficult times':

I. It is also known as distress funding or vulture financing.
II. In the United States, businesses that have declared bankruptcy under Chapter 11 are viable candidates.
III. The primary goal is to provide philanthropic grants that do not require any turnaround of management or assets.

Which combination of the above statements is correct?

(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

May/June 2018

56. Consider the following statements regarding the near future prospects of venture capital:

I. The production of lithium batteries will see increased demand for technological innovations making mining cleaner.
II. Early-stage and early-growth-stage funds will spend more time cultivating syndicates before bringing a firm public.
III. The market for venture capital is becoming more decentralised with founders relocating to states like Arizona, Texas, and Florida.
IV. Biotechnology companies tend to go public with little or no revenue while treatments are in clinical trials.

Which combination of the above statements is correct?

(A) I, II, and III
(B) II, III, and IV
(C) I, III, and IV
(D) I, II, III, and IV

Oct/Nov 2016

57. Match the following international private equity players with a presence in India with their headquarters:

List I: International Private Equity Player
P. The Carlyle Group
Q. Warburg Pincus
R. Bain Capital
S. TPG Growth Capital

List II: Headquarters
1. San Francisco, USA
2. Boston, Massachusetts, USA
3. Washington, District of Columbia, USA
4. New York, USA

(A) P-3, Q-4, R-2, S-1
(B) P-4, Q-3, R-1, S-2
(C) P-2, Q-1, R-4, S-3
(D) P-3, Q-2, R-4, S-1

May/June 2014

58. Which of the following is an incorrect statement regarding the benefits obtained through private equity?

(A) It restricts businesses to strictly conventional methods of expansion under heavy public scrutiny.
(B) It gives companies access to cash as an alternative to conventional bank loans with high interest rates.
(C) It removes the pressure of quarterly profitability restricting the time frame available to senior management.
(D) It assists delisted businesses in experimenting with new ways to cut losses or make money.

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stage fund, making it the smallest venture capital fundraise in India.

Which combination of the above statements is correct?

(A) I, II, III, and IV
(B) II, III, IV, and V
(C) I, III, IV, and V
(D) I, II, IV, and V

Oct/Nov 2008

73. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): Private equity transactions are generally subject to fewer public disclosure requirements compared to Initial Public Offerings.

Reason (R): These transactions are structured as private placements with sophisticated investors rather than offerings to the general public.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2006

74. Consider the following statements regarding Category III AIFs:

I. They employ diverse or complex trading strategies.
II. They are strictly prohibited from employing any form of leverage or borrowing.
III. Various types of funds such as hedge funds and PIPE Funds are registered under this category.

Which combination of the above statements is correct?

(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

Oct/Nov 2017

75. Which of the following is an incorrect statement regarding the final contract for the purchase of shares in a private equity transaction?

(A) It is known as a share purchase or asset purchase agreement.
(B) It outlines the specific terms and circumstances of the agreement.
(C) Investment bankers play a role in ensuring the parties come to an agreement.
(D) The nature of this agreement makes it completely non-binding on all parties.

May/June 2011

76. What is the most appropriate description of the investment approach utilized by CX Partners?

(A) Exclusively funding public sector disinvestment projects via debt.
(B) Focusing on leveraged buyouts of bankrupt industrial textile mills.
(C) Donating seed capital strictly to real estate development firms.
(D) Focusing on the mid-market, products, and aspiring entrepreneurs.

Oct/Nov 2013

77. During a private equity transaction, the purchasing firm carries out a valuation of the firm being sold. Upon what data does the private equity firm base its valuation?

(A) Purely the personal asset declarations of the founder
(B) The competitor's historical stock prices
(C) The national inflation index alone
(D) The financial data and projections provided

May/June 2022

78. A local private equity manager successfully obtains a final closure of US$ 680 million for its third fund, making it the firm's largest fund to date. Which indigenous manager accomplished this feat in 2021?

(A) Kedaara Capital
(B) Chiratae Ventures
(C) A91 Partners
(D) Multiples Alternate Asset Management

Oct/Nov 2012

79. Arrange the following crucial stages in the process of investing in private equity in the correct chronological order:

1. Memorandum Regarding Confidential Information
2. Teaser sent by investment bankers
3. Valuations
4. Non-disclosure agreement (NDA)

(A) 2, 4, 1, 3

NODIA

and tax difficulties.

Which of the statements given above is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2005

67. Match the following Indian private equity companies with their defining features or sectors of focus:

List I: Indian Private Equity Company

P. Chrys Capital Management
Q. Motilal Oswal Private Equity (MOPE)
R. IDFC Private Equity Fund (Investcorp)
S. ICICI Venture Capital Fund

List II: Features / Sector of Focus

1. Introduced a total of four different India advantage funds.
2. Manages assets worth more than US$ 5 billion over its 9 funds.
3. Primary focus is on making investments in the middle market segment.
4. Centers on services related to infrastructure with a ticket size of more than USD 50 million.

(A) P-2, Q-3, R-4, S-1
(B) P-3, Q-2, R-1, S-4
(C) P-4, Q-1, R-3, S-2
(D) P-2, Q-4, R-3, S-1

May/June 2020

68. Consider the following statements regarding SEBI's role in governing Alternative Investment Funds:

I. SEBI issues circulars from time to time to increase transparency and improve governing standards.
II. SEBI circulars cover areas such as overseas investment norms, compliance management, and guidelines on disclosures.

Which of the statements given above is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2015

69. In the beginning stages of a private equity deal, a potential investor receives a condensed overview of the investment opportunity where the vendor's name is not revealed. What is this document known as?

(A) Investment Teaser
(B) Information Memorandum
(C) Non-disclosure agreement
(D) Share purchase agreement

May/June 2013

70. How do the SEBI (Alternative Investment Funds) Regulations, 2012, define an Alternative Investment Fund (AIF)?

(A) A fund covered strictly under the SEBI (Mutual Funds) Regulations, 1996.
(B) A publicly traded entity operating exclusively to accept retail deposits.
(C) A private vehicle collecting funds from sophisticated investors.
(D) A collective investment scheme managed by the central government.

Oct/Nov 2021

71. A buyer enters the due diligence phase before acquiring a target company. From the buyer's point of view, what is the unquestionable vital benefit of performing this exercise?

(A) Validating facts and claims to lower the overall acquisition risk.
(B) It legally forces the seller to drop the purchase price by 50%.
(C) It allows the buyer to bypass the signing of a share purchase agreement.
(D) It immediately converts common equity into preferred equity.

May/June 2024

72. Consider the following statements based on the GPCA 2022 India Data Insight:

I. India reached a record US$ 23.5 billion in private capital investment in the consumer goods and services industry in 2021.
II. Fund managers allocated a total of US$ 53 billion over 1,148 separate transactions in 2021.
III. Venture capital investors put US$ 33 billion into the market in 2021, representing a 319% rise from the previous year.
IV. The US$ 3.6 billion late-stage round raised by Flipkart in 2021 was the second-largest private capital investment across all GPC markets.
V. A91 Partners raised a US$ 550 million early-

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9. (B) Fund Theme
When establishing a new fund, the general partner must define specific investment parameters, such as industry sectors and geographical focuses. This strategic framework is known as the fund theme, which guides all future investment decisions. Defining whether to invest in healthcare or software across specific regions like Southeast Asia ensures that the fund remains specialized and expertise-driven.

10. (C) The venture capitalist is primarily concerned when there is a potential for a loss of financial resources.
After making an investment, venture capitalists monitor the performance of the portfolio company to protect their financial interests. While they do not typically control daily operations, they provide strategic oversight and guidance to the management team. Their primary concern arises when there is a risk of financial loss, prompting them to take a more active role in resolution.

11. (D) They provide network access, collaborations, and specialized staffing.
Venture capitalists provide significant value beyond mere financial capital by leveraging their extensive industry networks and expertise. They assist portfolio companies by facilitating strategic collaborations, opening doors to potential clients, and helping recruit specialized staff. This institutional support helps startups scale more efficiently than they could by relying solely on their own internal resources and connections.

12. (C) They are subject to a vast number of highly stringent restrictions on the activities they engage in.
Private equity and venture capital both involve professional managers overseeing autonomous pools of capital to invest in private businesses. However, unlike public markets, these investment vehicles are not subject to a vast number of highly stringent regulatory restrictions. They operate with significant flexibility and exercise active oversight over their portfolio companies to ensure growth and eventual profitability.

13. (A) To develop a new start-up that will attract investment by the end of their term.
An Entrepreneur In Residence is a seasoned professional brought into a venture capital firm to leverage their industry experience. Their primary objective is to evaluate potential deals and eventually develop a new start-up that the firm can invest in. This role allows the firm to foster internal innovation while benefiting from the individual's specialized knowledge and entrepreneurial skills.

14. (C) Five years
Venture capital investments are structured with a medium-term horizon, usually targeting a realization of returns within five years. This period allows the startup enough time to develop its product, scale operations, and achieve a valuation suitable for an exit. After this timeframe, venture capitalists typically seek to sell their ownership through an acquisition or a public offering.

15. (A) P-3, Q-3, R-3, S-2
Venture capital success models use estimated probabilities to evaluate the likelihood of a firm reaching its goals. Standard models suggest an eighty percent probability for individual factors like having sufficient capital, capable management, and expected competitor behavior. However, the combined probability of success across all these variables is significantly lower, often estimated at approximately fifty percent for the venture.

16. (A) Technology Development and Information Company of India Limited (TDICI)
The Technology Development and Information Company of India Limited was established in 1988 as a pioneering venture capital entity. It was formed through a joint venture between the Industrial Credit and Investment Corporation of India and the Unit Trust of India. Later renamed ICICI Venture, it played a foundational role in shaping the venture capital landscape in India.

17. (A) Anti-dilution clauses
Anti-dilution clauses are critical provisions in venture capital deals designed to protect investors from a loss in value during subsequent funding rounds. If a company raises more capital at a lower valuation than previous rounds, these clauses adjust the investor's equity stake. This mechanism ensures that the venture capital firm maintains its relative ownership and investment value over time.

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(B) 4, 2, 3, 1
(C) 2, 1, 4, 3
(D) 1, 2, 4, 3

May/June 2008

80. An individual investor proposes to invest in an angel fund. The investor has a net tangible asset value of three crore rupees (excluding principal residence) and possesses ten years of senior management experience. Does this investor satisfy the conditions to be an "Angel investor" under SEBI guidelines?
(A) No, because the net tangible assets must exceed ten crore rupees for an individual to qualify.
(B) No, because the investor must be a corporate body to qualify for this investment category.
(C) Yes, but only if the investor is a registered Category III AIF with the relevant authorities.
(D) Yes, as the investor meets the two crore asset and ten-year experience criteria.

Oct/Nov 2020

81. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): It is not unusual for sellers to perform due diligence on their own businesses before selling them.
Reason (R): A thorough study and analysis of the seller's financial situation can show the company's true value on the open market.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2015

82. A global limited partner notes the massive economic expansion in India driven by its 1.3 billion population. Following the trend highlighted in the GPCA 2022 Data Insight, into which sector did investors inject capital for businesses like Swiggy, Dream11, and ShareChat?
(A) Consumer digital areas like gaming and delivery.
(B) Heavy machinery manufacturing and industrial output.
(C) Traditional fossil fuel extraction and oil processing.
(D) Telecommunication hardware and network components.

Oct/Nov 2023

83. A newly established fund intends to exclusively invest in SME funds and infrastructure sectors which the government considers economically desirable. Under which AIF category must it seek registration?
(A) Category II AIF
(B) Category III AIF
(C) Mutual Fund Category
(D) Category I AIF

May/June 2016

84. After expressing interest in a teaser, an investor must sign a specific document before receiving the Confidential Information Memorandum. What is the primary purpose of this signed document?
(A) To legally bind the investor to purchase the shares at a fixed price.
(B) To publicize the transaction to the stock market for transparency.
(C) To prevent unauthorized use of data, such as poaching staff.
(D) To validate the financial projections and data independently.

Oct/Nov 2018

85. A private company in India aims to raise capital without offering securities to the general public. Under Section 42 of the Companies Act 2013, to what maximum number of individuals can an offer or invitation be extended (excluding qualified institutional buyers and ESOP employees)?
(A) 50 individuals
(B) 100 individuals
(C) 200 individuals
(D) 500 individuals

May/June 2021

86. What was the compound annual growth rate (CAGR) at which Private Equity and Venture Capital investments grew during the decade of 2011-2020 in India?

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(D) I, III, and IV

Oct/Nov 2024

99. Consider the following statements regarding the Trade Sale exit strategy:

I. The private equity investor sells all of their shares to a third-party purchaser.

II. It provides an additional benefit over an IPO because the revenue can almost immediately be realised.

III. The activity in the stock market delays the withdrawal from the position.

Which combination of the above statements is correct?

(A) I and II

(B) II and III

(C) I and III

(D) I, II, and III

May/June 2017

100. Consider the following summary statements regarding Private Equity and Venture Capital:

I. Investors provide venture capital to new businesses they feel can grow over time.

II. Private equity investors typically put their money into established businesses.

III. India's economy is currently worth approximately $3 trillion, with estimates anticipating a rise to $5 trillion within the next ten years.

IV. India's rank in ease of doing business improved from 142 in 2014 to 63 in 2022.

V. Regulatory enhancements have eradicated all alternative investment funds (AIF) from the Indian market.

Which combination of the above statements is correct?

(A) I, II, III, and IV

(B) II, III, IV, and V

(C) I, III, IV, and V

(D) I, II, IV, and V

NODIA

List II: Defining Features
1. Reorganises capitalization so that debt makes up the majority of equity.
2. The company gets its shares listed on a stock exchange.
3. Sale of the private equity investment to another private equity fund.
4. The investor sells all of their shares to a third-party purchaser, allowing revenue to be almost immediately realised.

(A) P-2, Q-4, R-3, S-1
(B) P-4, Q-2, R-1, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-3, R-4, S-1

Oct/Nov 2007

93. Which of the following areas are typically covered in the overview of a targeted company during due diligence?
I. Financial Matters
II. Contractual Matters
III. Litigation
IV. Employee Management Issues
V. Sovereign Wealth Allocation
(A) II, III, IV, and V are covered; I is not.
(B) I, III, IV, and V are covered; II is not.
(C) All I, II, III, IV, and V are covered.
(D) I, II, III, and IV are covered; V is not.

May/June 2025

94. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): When implementing an Initial Public Offering (IPO), the withdrawal from the position won't be finished until the shares are sold.
Reason (R): The activity in the stock market will have an effect on this exit strategy.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2019

95. A private equity fund decides to execute an exit strategy that paves the way for a smooth exit because the fund is no longer interested in the investment. They sell their stake to another private equity fund, resulting in a shorter lifespan than initially anticipated. This strategy is known as:
(A) Secondary Buyout
(B) Flotation
(C) Trade Sale
(D) Recapitalization

May/June 2009

96. Which of the following is an incorrect statement regarding the lifespan and intention of a private equity investment?
(A) The lifespan is typically predetermined to be somewhere between five and ten years.
(B) Private equity investors buy things with the intention of holding them indefinitely.
(C) It is a common practice to begin formulating a plan for the exit motion immediately following the completion of a purchase.
(D) The primary goal is the realisation of returns on the investments made.

Oct/Nov 2011

97. All of the following are cited as reasons why Recapitalization Through the Use of Leverage can be utilized EXCEPT:
(A) To list the company on a public stock exchange permanently
(B) To pay large dividends
(C) To protect the business from being taken over by an adversary
(D) To buy back shares of the company

May/June 2010

98. Consider the following statements regarding the 'Procedure with Two Separate Tracks':
I. The private equity firm evaluates its investment in the public market.
II. It provides assistance in the search for an exit strategy appropriate for the situation.
III. It guarantees a successful departure exclusively by declaring bankruptcy.
IV. It accounts for the possibility that the company is no longer interested in the investment.
Which combination of the above statements is correct?
(A) I, II, and III
(B) I, II, and IV
(C) II, III, and IV

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(A) 8%
(B) 12%
(C) 19%
(D) 35%

Oct/Nov 2010

87. Consider the following stages in the process of investing in private equity:
I. Permitting Access to Data allows the prospective purchaser to validate facts virtually.
II. Management meetings involve senior management from both sides meeting in person.
III. The formal notice of intent is an exchange of the finalized, binding share purchase agreement.
IV. A letter of intent outlines the broad conditions of the acquisition.
V. Investment bankers play a significant role in ensuring the contract for the purchase of shares is successfully completed.
Which combination of the above statements is correct?
(A) I, II, III, and IV
(B) I, II, IV, and V
(C) II, III, IV, and V
(D) I, III, IV, and V

May/June 2005

88. Match the SEBI AIF Categories with their respective descriptions:
List I: SEBI AIF Categories
P. Category I AIF
Q. Category II AIF
R. Category III AIF
S. Angel Fund
List II: Descriptions
1. Employ diverse or complex trading strategies and may employ leverage.
2. Only raises funds by way of issue of units to angel investors; sub-category of Category I.
3. Invest in start-up or early stage ventures, social ventures, SMEs, or infrastructure.
4. Do not undertake leverage other than day-to-day operations; includes real estate and PE funds.
(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-1, Q-2, R-3, S-4
(D) P-3, Q-1, R-4, S-2

Oct/Nov 2022

89. All of the following are steps frequently included in transactions with private equity EXCEPT:
(A) Expression of interest
(B) Public auctioning of non-voting shares
(C) Management meetings
(D) Formal notice of intent

May/June 2018

90. Consider the following statements regarding the regulations governing an Angel Fund:
I. It is considered a sub-category of Venture Capital Fund under Category I AIF.
II. It shall only raise funds by way of issue of units to angel investors.
III. An angel fund shall accept an investment of not less than Rs. 25 lakh from an angel investor.
IV. The investment is accepted up to a maximum period of 3 years.
Which combination of the above statements is correct?
(A) I, II, and III
(B) II, III, and IV
(C) I, III, and IV
(D) I, II, III, and IV

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Oct/Nov 2016

91. Which of the following is an incorrect statement regarding 'Recapitalization Through the Use of Leverage'?
(A) It is a strategy for a partial exit that gives the company the opportunity to acquire additional cash without selling the company itself.
(B) It reorganises a company's capitalization so that debt makes up a significant portion of its capital structure.
(C) It is an entirely risk-free strategy that eliminates the possibility of the company going bankrupt.
(D) It can be used to pay large dividends or buy back shares of the company.

May/June 2014

92. Match the Private Equity Exit Strategies with their defining features:
List I: Private Equity Exit Strategy
P. Initial offering to the public (IPO)
Q. Trade Sale
R. Secondary Buyout
S. Recapitalization

ANSWERS

1. (D) Projects are categorized by criteria such as market scope, technology, and geographical location.
   Screening and shortlisting represent the initial phase where venture capitalists filter numerous proposals to identify viable investment opportunities. During this stage, projects are systematically categorized based on specific parameters such as market potential, technological innovation, and geographical relevance. This structured categorization helps investors focus on ventures that align with their fund's strategic objectives and expertise.

2. (A) I and II
   General Partners are the primary managers of a venture capital fund, responsible for the active lifecycle of investments. Their core duties involve raising capital by contacting potential limited partners and performing thorough due diligence on potential targets. These partners handle the financial deployment into companies and remain actively involved throughout the process, including the execution of the exit strategy.

3. (A) Only I
   Venture capital exists primarily because traditional banking institutions maintain strict lending criteria that often exclude startups. Banks generally require tangible assets as collateral to mitigate risk, which most newly established companies lack. In contrast, venture capitalists provide equity financing to these high-risk enterprises, filling a funding gap for businesses with significant growth potential but no collateral.

4. (C) Both I and II
   Venture capital fund compensation typically involves both management fees and performance-based incentives known as carry. Management fees generally range from two to three percent of the fund's total value annually to cover operational expenses. Carry represents a profit-sharing mechanism where general partners receive approximately twenty to thirty percent of the profits once a specific return threshold is met.

5. (B) Engaging in venture capital investments
   For a young, pre-profit business, venture capital is an ideal financing route because it provides equity-based funding rather than debt. Unlike bank loans or corporate bonds, venture capital does not require the entrepreneur to make regular interest payments. This allows the startup to reinvest its limited cash flow into growth and operations during its critical early development stages.

6. (B) II and III
   The power law in venture capital suggests that the majority of returns in a portfolio are generated by a small number of exceptional investments. One or two highly successful companies can often compensate for several failures, driving the fund's overall profitability. Consequently, venture capitalists focus on businesses targeting massive markets with the inherent capacity for rapid, significant expansion.

7. (B) To seek businesses with the potential to expand their operations over the long term.
   Venture capital investors focus on identifying and supporting start-up organizations that demonstrate the potential for long-term operational expansion. Their goal is to invest in private equity markets rather than public ones, seeking high returns through growth. Beyond providing capital, these investors often contribute managerial expertise and strategic guidance to help the enterprise reach its full commercial potential.

8. (B) To identify opportunities, conduct research, and attend conferences.
   Analysts within a venture capital firm play a crucial supportive role by handling the initial stages of deal sourcing and research. Their primary responsibilities include identifying new investment opportunities, conducting deep market research, and attending industry conferences to build networks. While they gather essential data and perform initial screenings, they do not hold final investment decision-making authority.

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Oct/Nov 2007

59. An investor wishes to gain exposure to hedge funds but cannot meet the minimum investment criteria of an individual fund. The investor utilizes an alternative vehicle that aggregates capital to invest across multiple funds. This vehicle is known as:
(A) Real Estate Investment Trust
(B) Special Purpose Vehicle
(C) Fund of funds
(D) Vulture financing fund

May/June 2025

60. Who was responsible for the first leveraged buyout in 1901 by purchasing Carnegie Steel Corporation?
(A) Warren Buffett
(B) J.P. Morgan
(C) Kohlberg Kravis & Roberts
(D) Goldman Sachs

Oct/Nov 2019

61. Into which edtech company in India did investors inject capital to the amount of US$ 1.65 billion in 2021?
(A) Flipkart
(B) Ola
(C) Byju's
(D) Zomato

May/June 2009

62. Which of the following is a correct statement regarding the environment for private equity investments in India?
(A) PE investments are often made in private firms not listed on exchanges.
(B) Private equity investments are predominantly made in large publicly traded companies.
(C) Investing in publicly traded companies is highly recommended due to high-quality assets.
(D) Stringent requirements for delisting encourage PE firms to target only listed firms.

Oct/Nov 2011

63. Consider the following statements regarding indigenous companies dealing in Private Equity:
I. Premji Invest focuses strictly on the healthcare sector and ignores public businesses.
II. Kedaara Capital is an operations-based Private Equity Fund launched in cooperation with Clayton, Dubilier & Rice.
III. JM Financial Private Equity is agnostic regarding sector focus and just recently initiated a Fund II.
IV. The ticket size for Kedaara Capital is 20 Million USD and Above.
Which combination of the above statements is correct?
(A) I, II, and III
(B) II, III, and IV
(C) I, III, and IV
(D) I, II, III, and IV

May/June 2010

64. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): The 'expression of interest' submitted by a potential buyer in a private equity transaction is a legally binding offer.
Reason (R): It indicates that the acquired party is interested in purchasing the company for a specified price.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

65. A fund focuses strictly on distressed assets and real estate, explicitly avoiding massive leverage beyond daily requirements. According to SEBI regulations, how will this fund be categorized?
(A) Category II AIF
(B) Category I AIF
(C) Category III AIF
(D) PIPE Fund

May/June 2017

66. Consider the following statements regarding Due Diligence:
I. There is a single, definitive formula that must be adhered to regardless of the kind of transaction.
II. It encompasses a wide range of topics, including commercial, legal, accounting,

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18. (A) 3, 2, 1, 5, 4
Obtaining venture capital funding involves a logical progression starting with the screening and shortlisting of potential deals. This is followed by a detailed evaluation and rating of the business proposals to determine viability. Once selected, final deal negotiations occur, leading to post-investment monitoring activities and, eventually, the execution of a pre-planned exit strategy to realize investment returns.

19. (D) Associates – Exercise ultimate control over the operational policies of the VC fund.
In a venture capital firm structure, different roles carry distinct levels of authority and responsibility. While general partners and principals hold significant decision-making power, associates are typically more junior and lack ultimate control over operational policies. Associates focus on deal sourcing, research, and financial modeling to support senior members, rather than exercising final authority over the fund's strategy.

20. (A) Kalaari Capital – Cure.fit, Milkbasket, CashKaro, and Zivame
Kalaari Capital is a prominent Indian venture capital firm with a diverse portfolio of successful technology-driven startups. Its investments include well-known companies such as the health-tech platform Cure.fit and the online grocery delivery service Milkbasket. Additionally, the firm has backed consumer-oriented brands like CashKaro and Zivame, showcasing its focus on high-growth sectors within the Indian consumer and technology markets.

21. (C) Assertion (A) is true, but Reason (R) is false.
Creating a successful company is an inherently difficult task, which is reflected in the high failure rate of venture-backed businesses. Statistics indicate that approximately seventy-five percent of these firms fail to provide the expected returns. This high failure rate is not due to poor judgement by venture capitalists, but rather the extreme risks associated with innovative early-stage enterprises.

22. (B) Funding to support expansion after a company has achieved recent financial success.
Mezzanine financing represents a transitional stage of funding typically provided to companies that have achieved initial financial success and are seeking further expansion. It often occurs before an initial public offering or a major acquisition. This type of capital supports growth initiatives and scaling operations once the business model has been proven and the company has reached a certain maturity.

23. (D) JBF Industries Ltd
Kohlberg Kravis & Roberts, a leading global investment firm, expanded its presence in the Indian market through strategic equity investments. One notable transaction involved a USD 150 million investment in JBF Industries Ltd, a major player in the polyester industry. Through this deal, KKR acquired a twenty percent ownership stake, demonstrating its interest in established industrial manufacturing sectors in India.

24. (D) To attempt to exercise the "exit" option and earn a profit for distribution.
During the final years of a venture capital fund's lifecycle, the general partner shifts focus toward liquidating existing investments. The primary objective is to exercise exit options, such as selling portfolio companies or facilitating public listings, to generate cash returns. This allows the firm to distribute profits to limited partners before the fund officially reaches its ten-year expiration date.

25. (B) P-3, Q-4, R-2, S-1
Venture capital firms utilize various roles with specific responsibilities. Associates often have financial backgrounds and focus on relationship building without final decision-making power. Principals are senior members nearing partnership who guide the funding process. Managing partners weigh in on operational matters and investment decisions, while venture partners are compensated through carry interest for generating new business opportunities for the firm.

26. (D) Large industrial concerns
When the venture capital industry first emerged in India, institutional subsidiaries were primarily focused on supporting established sectors. Entities established by major financial institutions like IDBI, ICICI, and IFCI directed their funding toward large industrial concerns. This initial

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successfully raised a significant amount of capital, with investors injecting approximately US$ 1.65 billion. This massive funding round highlighted the strong investor confidence in the growth potential of technology-driven education solutions.

62. (A) PE investments are often made in private firms not listed on exchanges.
In the Indian market, private equity investments are predominantly directed toward private firms that are not listed on public stock exchanges. While there are some investments in public companies, the primary focus is on private equity where firms can take significant stakes and exercise greater operational influence. This environment allows investors to work closely with management to drive long-term value.

63. (B) II, III, and IV
Indigenous Indian private equity firms vary in their sector focus and operational models. Kedaara Capital is an operations-oriented fund launched in partnership with Clayton, Dubilier & Rice. JM Financial Private Equity maintains a sector-agnostic approach and has expanded its operations with new funds. These firms typically handle large deal sizes, with ticket sizes often starting at 20 million USD.

64. (D) Assertion (A) is false, but Reason (R) is true.
An expression of interest is an initial document submitted by a potential buyer in a private equity deal. While it formally indicates the buyer's desire to purchase the company at a certain price range, it is not a legally binding contract. Its purpose is to signal serious intent and move the negotiation process forward into more detailed stages like due diligence.

65. (A) Category II AIF
Under SEBI regulations, Alternative Investment Funds are divided into three categories based on their investment strategy and leverage. Category II AIFs include private equity funds and debt funds that do not undertake significant leverage for anything other than day-to-day operations. This category specifically encompasses funds focusing on distressed assets and real estate, providing a regulated framework for these investments.

66. (B) Only II
Due diligence is a comprehensive process used to evaluate a potential investment from multiple angles. There is no single, fixed formula; instead, the process is tailored to the specific transaction and industry. It covers a wide range of critical topics, including financial records, legal obligations, accounting practices, and tax liabilities, ensuring the buyer has a complete understanding of the business.

67. (A) P-2, Q-3, R-4, S-1
Indian private equity firms have distinct characteristics and investment focuses. Chrys Capital Management manages over US$ 5 billion across several funds, while Motilal Oswal Private Equity focuses on the middle market. IDFC Private Equity, now part of Investcorp, centers on infrastructure with large ticket sizes. ICICI Venture has a long history, having introduced multiple India advantage funds over the years.

68. (C) Both I and II
The Securities and Exchange Board of India plays a vital role in maintaining the standards of the Alternative Investment Fund industry. SEBI regularly issues circulars to enhance transparency and improve governance. these guidelines cover essential areas such as overseas investment norms, compliance management, and disclosure requirements, ensuring that the industry operates fairly and remains attractive to sophisticated global investors.

69. (A) Investment Teaser
At the start of a private equity transaction, an investment teaser is used to gauge interest among potential buyers. This document provides a condensed, high-level overview of the investment opportunity while keeping the vendor's identity anonymous. By providing just enough information to entice investors without revealing sensitive details, the teaser helps filter interested parties before more confidential data is shared.

70. (C) A private vehicle collecting funds from sophisticated investors.
The SEBI Regulations of 2012 define an Alternative Investment Fund as a privately pooled investment vehicle established in India. It collects funds from sophisticated investors,

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market forces. Instead, the price and specific shareholder rights are established through direct, case-by-case negotiations between the buyer and the seller. This private negotiation process allows parties to customize terms and conditions that reflect the unique characteristics and strategic value of the business being acquired.

36. (A) Retail banking
The Carlyle Group is a global private equity firm that invests across a wide array of diverse sectors to drive growth. Its investment portfolio spans industries such as healthcare, consumer goods, and manufacturing. However, the firm typically does not focus on retail banking, which involves different regulatory frameworks and business models compared to their traditional targets in corporate and industrial sectors.

37. (C) Only <1% of enterprises receive funding from venture capitalists.
The deal flow funnel illustrates the highly selective nature of venture capital investing. Firms review thousands of potential opportunities each year, yet only a tiny fraction eventually receives funding. Data indicates that less than one percent of the enterprises evaluated by venture capitalists successfully secure an investment, highlighting the rigorous screening and due diligence process required to identify top-tier startups.

38. (D) Unrestricted sovereign bond issuance
Private equity encompasses various specialized funding mechanisms tailored to different business needs and stages. These include leveraged buyouts, real estate private equity, and distress funding for companies in financial difficulty. However, unrestricted sovereign bond issuance is not a form of private equity, as it involves public debt issued by national governments to finance state activities rather than private corporate investments.

39. (D) Management fees charged to investors in a fund
Private equity firms generate income through a combination of performance incentives and recurring charges. The most consistent and significant contributor to their total revenue is the management fees charged to the fund's investors. These fees, usually calculated as a percentage of the assets under management, cover the firm's operational costs, salaries, and daily investment activities throughout the fund's lifecycle.

40. (A) Only I
Private equity capital is primarily sourced from institutional investors and accredited high-net-worth individuals who can commit large sums of money. These investors must be willing to lock up their capital for extended periods, as private equity is inherently illiquid. Unlike public stocks, these investments do not offer immediate liquidity and typically take several years to reach a realization event.

41. (B) True North's India Value Fund – Kolkata
India hosts several major indigenous private equity firms located in key financial hubs. While Kotak Private Equity is based in Mumbai and Chrys Capital Management operates from New Delhi, others have different headquarters. True North's India Value Fund is actually based in Mumbai, not Kolkata. Premji Invest, another significant player, maintains its primary operations in Bengaluru, reflecting the regional distribution of capital.

42. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Special-purpose acquisition corporations have become a popular vehicle for bringing biotechnology companies to the public market. The biotech industry is extremely capital-intensive and often features companies that need significant funding while their treatments are still in clinical trials. Since these firms frequently lack revenue during development, SPACs offer an efficient alternative for them to raise necessary capital and go public.

43. (A) P-3, Q-4, R-1, S-2
Different private equity strategies involve unique structural details. Leveraged buyouts utilize special purpose vehicles and debt to acquire companies, while real estate private equity involves holding investor funds in escrow. Fund of funds provide an entry point for investors with smaller capital pools by investing across multiple funds. Venture capital specifically focuses on early-stage financing, including seed and Series A rounds.

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approach differed from modern venture capital, which focuses more on early-stage, high-growth technology startups and innovative consumer services in the current market.

27. (C) 25–35%
Venture capital is considered a high-risk, high-reward asset class compared to traditional public equity and debt markets. To compensate for the significant risks and long-term illiquidity involved, investors expect much higher annual returns. Industry standards typically project returns in the range of twenty-five to thirty-five percent, which significantly exceeds the average performance of more conservative financial investment vehicles.

28. (C) I, II, and IV
Venture capital offers the advantage of equity funding where owners are not required to repay the capital like a loan. However, the process is lengthy and complex due to the inherent risks. While investments are long-term, causing delayed earnings, a significant disadvantage is that founders often lose some independence and control as investors gain a say in major business decisions.

29. (C) The minimum annual return guaranteed for Limited Partners before profit sharing.
The hurdle rate is a specific financial term used in the agreement between general and limited partners. It represents the minimum annual rate of return that the fund must achieve for its limited partners before the general partners can share in the profits. This mechanism ensures that investors receive a basic return on their capital before performance-based incentives apply.

30. (A) P-3, Q-1, R-4, S-2
Indian venture capital firms are often identified by their prominent founders and specific investment focus. Blume Ventures was co-founded by Karthik Reddy and Sanjay Nath, while Kalaari Capital is led by Vani Kola. Nexus Venture Partners consists of successful entrepreneurs focused on technology. Furthermore, companies like Pepperfry.com have attracted diverse institutional investors such as Goldman Sachs and Zodius Technology Fund.

31. (C) LPs hold 99% of shares with limited liability, while GPs hold 1% with full liability.
In a private equity fund structure, the distribution of equity and liability differs significantly between partner types. Limited partners typically provide ninety-nine percent of the capital and have liability limited to their investment amount. Conversely, general partners hold only a one percent equity stake but carry full legal and operational liability for the management of the fund's activities.

32. (B) To improve a firm's health for a resale profit or an initial public offering.
A leveraged buyout is a financial strategy used by private equity firms to acquire a company primarily using borrowed funds. The primary objective is to take control of an established business, improve its operational efficiency and financial health, and eventually sell it for a profit. This exit can occur through a resale to another company or an initial public offering.

33. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Market dynamics often lead to a reduction in startup stock valuations when economic conditions change. High inflation and rising interest rates increase the cost of capital, making high-growth companies less attractive to investors. Consequently, the discounted future cash flows of these businesses decrease, leading to lower current valuations as the market corrects from previous extremes to more sustainable levels.

34. (D) Registered AIFs fell from 641 in March 2020 to 300 in March 2021.
The Securities and Exchange Board of India regulates the alternative investment landscape, which has seen significant growth recently. Contrary to the idea that registered AIF numbers fell, the market actually experienced an expansion. While regulations were introduced in 2012 to govern venture capital and private equity, the actual number of registered funds has increased significantly over the subsequent years.

35. (D) Assertion (A) is false, but Reason (R) is true.
In private equity transactions, the valuation of a company is not determined by public stock

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several years and eventually exit at a higher valuation.

53. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Liquidating holdings in private equity can be highly challenging because these investments are inherently illiquid. Unlike public stock markets, where an order book matches buyers and sellers instantly, private equity requires finding a specific buyer through negotiation. This lack of a ready-made market means that exiting an investment can take significant time and effort compared to selling public shares.

54. (C) The fee structure of private equity companies frequently includes a management fee equal to 2% of assets under management.
Private equity firms use a standard fee structure to cover operational costs and incentivize performance. A common industry practice involves charging a management fee, which is typically equal to two percent of the total assets under management. This fee provides a steady income stream for the firm, while performance fees allow managers to share in the profits generated for investors.

55. (A) I and II
Distress funding, often referred to as vulture financing, targets companies facing severe financial difficulties or bankruptcy. In the United States, businesses reorganizing under Chapter 11 are common candidates for this type of investment. The goal is to provide capital and management expertise to turn around the failing business, making it profitable again rather than just providing simple philanthropic grants.

56. (D) I, II, III, and IV
The future of venture capital is shaped by technological innovation and market decentralization. Demand for cleaner mining for lithium batteries is rising, and fund managers are spending more time building syndicates. Founders are also moving to diverse locations like Texas and Florida. Furthermore, the biotechnology sector remains a unique area where companies often go public during clinical trials without revenue.

57. (A) P-3, Q-4, R-2, S-1
Major international private equity firms maintain headquarters in prominent financial cities across the United States. The Carlyle Group is based in Washington, D.C., while Warburg Pincus operates out of New York. Bain Capital is headquartered in Boston, Massachusetts, and TPG Growth Capital is located in San Francisco. These locations serve as global hubs for managing their diverse and extensive investment portfolios.

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58. (A) It restricts businesses to strictly conventional methods of expansion under heavy public scrutiny.
Private equity provides businesses with access to capital as an alternative to high-interest bank loans and removes the constant pressure of quarterly public reporting. This allows management to focus on long-term value creation and experimentation. It does not restrict businesses to conventional methods; instead, it often provides the flexibility needed for radical restructuring and expansion away from heavy public scrutiny.

59. (C) Fund of funds
A fund of funds is a specialized investment vehicle that aggregates capital from multiple investors to invest in a portfolio of other funds. This structure is particularly useful for investors who cannot meet the high minimum investment requirements of individual hedge funds or private equity funds. It provides broader diversification and professional management for those seeking exposure to alternative assets.

60. (B) J.P. Morgan
The history of leveraged buyouts dates back to the early twentieth century with major industrial transactions. In 1901, J.P. Morgan orchestrated the first significant leveraged buyout by purchasing the Carnegie Steel Corporation. This landmark deal consolidated several steel companies to form U.S. Steel, demonstrating the power of using borrowed capital to execute massive corporate acquisitions and reshape entire industrial sectors.

61. (C) Byju's
The Indian edtech sector experienced a massive surge in investment during 2021 as digital learning platforms expanded rapidly. Byju's, one of the leading companies in this space,

96. (B) Private equity investors buy things with the intention of holding them indefinitely.
Private equity investments are designed with a specific lifecycle, typically ranging from five to ten years. Unlike long-term holding companies, private equity firms buy businesses with the specific intention of improving them and eventually selling them for a profit. Planning for an exit often begins shortly after the initial acquisition, as the primary goal is the realization of significant financial returns.

97. (A) To list the company on a public stock exchange permanently
Recapitalization using leverage is a strategic financial tool used for various corporate purposes, such as paying large dividends or buying back shares. It can also serve as a defensive measure to prevent hostile takeovers. However, this strategy is focused on internal capital restructuring rather than listing the company on a public stock exchange, which is achieved through an initial public offering.

98. (B) I, II, and IV
The two separate tracks procedure is a strategy where a private equity firm explores multiple exit options simultaneously. This approach allows the firm to evaluate the company's value in both the public and private markets, helping to identify the most appropriate exit strategy. It accounts for the possibility that a traditional sale may not be as favorable as a public listing given the current market situation.

99. (A) I and II
In a trade sale, a private equity investor sells their entire shareholding to a third-party purchaser, typically another company in the same industry. This strategy offers the distinct advantage of immediate revenue realization, as the transaction is completed quickly compared to an IPO. Unlike public listings, a trade sale is not delayed by the fluctuating activity levels of the stock market during the exit process.

100. (A) I, II, III, and IV
Venture capital and private equity play distinct roles in supporting businesses at different stages of their lifecycle. India's growing economy, projected to reach five trillion dollars, provides a fertile ground for these investments. Improvements in the ease of doing business have further attracted capital. While regulatory standards have improved to govern the market, Alternative Investment Funds continue to be an active part.

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whether Indian or foreign, to invest according to a defined policy. AIFs are distinct from traditional mutual funds and collective investment schemes, offering specialized strategies for investors who seek exposure beyond standard public market instruments.

71. (A) Validating facts and claims to lower the overall acquisition risk.
For a buyer, performing due diligence is an essential step in the acquisition process to mitigate potential risks. This exercise allows the buyer to validate the seller's claims and financial data before finalizing the deal. By thoroughly investigating the company's legal, financial, and operational status, the buyer can ensure the investment matches their expectations and identifies any hidden liabilities.

72. (A) I, II, III, and IV
Data from 2021 highlights India's record-breaking performance in the private capital market. Total investments reached US$ 53 billion across more than a thousand transactions. The consumer digital sector saw significant activity, and Flipkart's late-stage round was one of the largest globally. While many funds saw massive growth, early-stage funds like A91 Partners also raised substantial capital to support the startup ecosystem.

73. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Private equity transactions are structured as private placements involving sophisticated investors, which exempt them from many public disclosure rules. Unlike an Initial Public Offering, where a company must provide extensive information to the general public, private deals are negotiated directly between parties. This allows for greater confidentiality and a more streamlined process, as the participants are deemed capable of evaluating risks independently.

74. (C) I and III
Category III AIFs are characterized by their use of diverse and often complex trading strategies to generate returns. These funds, which include hedge funds and PIPE funds, are permitted to employ leverage or borrowing to enhance their positions. This flexibility distinguishes them from other AIF categories, allowing them to participate in both listed and unlisted derivatives and other sophisticated instruments.

75. (D) The nature of this agreement makes it completely non-binding on all parties.
The final contract in a private equity deal, often called a share purchase agreement, is a critical legal document. It outlines the precise terms, conditions, and price of the acquisition. Unlike initial expressions of interest, this agreement is legally binding once signed by all parties. Investment bankers often facilitate the process to ensure both the buyer and seller reach a consensus.

76. (D) Focusing on the mid-market, products, and aspiring entrepreneurs.
CX Partners utilizes an investment approach that prioritizes the mid-market segment and supports aspiring entrepreneurs. They focus on investing in companies that offer strong products and have clear growth potential within their respective industries. By targeting this specific market layer, the firm aims to provide both capital and strategic guidance to help these businesses scale and reach their full potential.

77. (D) The financial data and projections provided
When a private equity firm values a potential acquisition target, it relies heavily on the financial data and future projections provided by the company. This quantitative information allows the firm to model potential returns and determine a fair purchase price. While other factors like market trends are considered, the company's internal financial records and growth forecasts remain the primary foundation.

78. (C) A91 Partners
A91 Partners, a leading indigenous private equity firm, achieved a major milestone in 2021. The firm successfully reached a final closure of US$ 525 million for its second fund, marking its largest fundraise to date. This accomplishment demonstrates the strong investor confidence in the firm's management and its ability to source and manage high-quality investment opportunities in India.

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44. (B) I, III, IV, and V
Private equity valuations are negotiated privately rather than determined by open markets. Historical developments, such as the growth of venture capital in the 1970s, provided crucial funding for tech giants like Apple and Intel. During peak years, firms used heavy debt leverage for acquisitions. Research consistently shows that businesses supported by private equity often outperform their public market peers over time.

45. (B) P-2, Q-4, R-1, S-3
International private equity players in India operate with different typical investment amounts, known as ticket sizes. The Blackstone Group usually targets large-scale deals exceeding USD 50 million. CVC Capital Partners focuses on investments of USD 20 million and above. KKR often looks at deals over USD 15 million, while Everstone Capital typically operates in the USD 20 million to 75 million range.

46. (B) Companies and funds will preserve cash reserves for longer due to market uncertainty.
Future forecasts for the venture capital industry suggest a shift toward more cautious financial management. Market uncertainty often leads companies and funds to prioritize the preservation of cash reserves for longer periods. This conservative approach helps businesses weather economic downturns and ensures they have sufficient runway. This trend reflects a move away from aggressive spending toward sustainable, long-term operational stability.

47. (B) Having the potential to earn more than $1 million
In the private equity industry, compensation for senior roles like principals is highly lucrative, especially at mid-market firms. These professionals manage significant deals and are entitled to performance-based bonuses and carry. Consequently, a principal at such a firm has the earning potential to exceed one million dollars annually, reflecting the high stakes and financial rewards associated with successful deal management.

48. (B) Sovereign Wealth Funds – Limited Partners (Investors)
The structure of a private equity fund involves different entities with specific roles. Limited partners are the primary investors who provide the capital; this group often includes sovereign wealth funds, pension funds, and insurance companies. These investors seek long-term returns and have limited liability. The general partner, usually the private equity firm itself, manages the fund and makes the actual investment decisions.

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49. (A) Rs. 949.99 crore
Real estate investment trusts in India have seen fluctuating levels of capital raised depending on the fiscal year. In Financial Year 2020-21, the amount raised was approximately Rs. 14,300 crore. However, in the subsequent Financial Year 2021-22, the capital raised by REITs was significantly lower, totaling approximately Rs. 949.99 crore, illustrating the varying market demand for these specialized investment vehicles.

50. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Following the 2008 financial crisis, private credit funds emerged as a vital alternative for businesses. These funds provide credit lines to companies that struggle to access traditional corporate bond markets or bank loans. Because they operate with shorter timeframes and fill a critical financing gap, their activity within the private equity landscape has increased as they provide necessary liquidity to firms.

51. (D) Baring Private Equity Asia
Baring Private Equity Asia is a major international investment management company headquartered in Hong Kong. It specializes in large-scale private equity transactions across the Asian market and manages a substantial portfolio with assets exceeding USD 20 billion. The firm is known for its strategic investments in diverse industries and its significant role in the regional private equity and investment landscape.

52. (D) Non-public capital used to invest in private firms or buyout public corporations.
Private equity is a category of alternative investment that involves capital not traded on a public exchange. This capital is used by specialized firms to invest directly in private companies or to conduct buyouts of public corporations to take them private. The goal is typically to improve the company's value over

between senior leaders, and using letters of intent to outline broad conditions. Investment bankers facilitate these steps to reach a final share purchase agreement. However, the formal notice of intent is distinct from the final, binding contract itself.

88. (A) P-3, Q-4, R-1, S-2
SEBI categorizes AIFs based on their specific investment mandates and operational styles. Category I funds focus on startups, social ventures, and infrastructure. Category II funds, such as typical private equity and real estate funds, avoid significant leverage. Category III funds employ complex trading strategies and may use leverage. Angel funds operate as a specialized sub-category of Category I, specifically for angel investors.

89. (B) Public auctioning of non-voting shares
Standard private equity transactions follow a private negotiation process involving steps like expressions of interest, management meetings, and formal notices of intent. These deals are conducted through private placements rather than public markets. Consequently, the public auctioning of non-voting shares is not a typical step in these transactions, as they avoid the broad public participation associated with stock exchange listings.

90. (B) II, III, and IV
Angel funds are a sub-category of venture capital funds under the Category I AIF framework. They are restricted to raising funds through the issuance of units specifically to angel investors. These funds must accept a minimum investment of twenty-five lakh rupees from each investor. Additionally, the investment from the fund into a startup is generally accepted for a defined period according to regulatory requirements.

91. (C) It is an entirely risk-free strategy that eliminates the possibility of the company going bankrupt.
Recapitalization through leverage is a strategy where a company significantly increases its debt to reorganize its capital structure. This approach can be used to pay dividends or buy back shares, providing a partial exit for investors without selling the entire company. However, it is not a risk-free strategy, as high levels of debt can increase the potential for financial distress.

92. (A) P-2, Q-4, R-3, S-1
Private equity firms use diverse strategies to exit their investments and realize returns. These include launching an initial public offering to list shares on an exchange or a trade sale to a third-party purchaser for immediate revenue. A secondary buyout involves selling the stake to another private equity fund. Recapitalization reorganizes the company's capital structure, often using debt to replace equity.

93. (D) I, II, III, and IV are covered; V is not.
During the due diligence process, investors conduct a comprehensive review of the target company across several key areas. This typically covers financial performance, legal and contractual obligations, pending litigation, and employee management issues. These investigations ensure that the buyer understands the business's health and potential risks. However, broader macroeconomic factors like sovereign wealth allocation are generally not part of company-specific due diligence.

94. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
An initial public offering is a complex exit strategy where a company's shares are sold to the general public. The investor's exit from their position is not fully realized until the actual shares are sold in the market. Consequently, the timing and success of this withdrawal are heavily influenced by the prevailing conditions and activity levels within the broader stock market.

95. (A) Secondary Buyout
A secondary buyout occurs when one private equity firm sells its ownership stake in a portfolio company to another private equity firm. This strategy allows the initial investor to exit and realize gains before the end of the traditional fund cycle. It provides a smooth transition when the original fund is no longer interested in holding the investment, ensuring continued professional management.

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79. (A) 2, 4, 1, 3
A typical private equity transaction follows a structured chronological sequence to ensure confidentiality and thorough evaluation. The process begins with an investment teaser sent to potential buyers, followed by the signing of a non-disclosure agreement. Once confidentiality is secured, the buyer receives a detailed information memorandum. Finally, the parties engage in valuations to determine the purchase price based on the data.

80. (D) Yes, as the investor meets the two crore asset and ten-year experience criteria.
SEBI guidelines specify clear criteria for individuals to qualify as angel investors. An individual must have at least two crore rupees in net tangible assets, excluding their primary residence. Additionally, they must possess ten years of experience in senior management or as an entrepreneur. Meeting these asset and experience thresholds allows an investor to participate in specialized angel funds and startups.

81. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
It is common for sellers to conduct their own due diligence before putting a business up for sale. This proactive analysis helps the seller understand the company's true market value and identify potential issues that a buyer might find. By performing a thorough study of their financial situation, sellers can better prepare for negotiations and present a more accurate, attractive opportunity.

82. (A) Consumer digital areas like gaming and delivery.
India's massive population and increasing internet penetration have driven significant growth in the consumer digital sector. Investors have heavily backed companies in areas like online delivery, gaming, and social media. Notable examples include Swiggy, Dream11, and ShareChat, which have received substantial private capital to scale their operations and capture the expanding digital market driven by a young, connected population.

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83. (D) Category I AIF
Category I Alternative Investment Funds are designed for investments that the government or regulators consider socially or economically desirable. This category includes funds that focus on small and medium enterprises, start-ups, and the infrastructure sector. By registering as a Category I AIF, a fund can target these specific areas while operating within a framework that encourages investment in key economic segments.

84. (C) To prevent unauthorized use of data, such as poaching staff.
Before a potential investor receives the highly sensitive Confidential Information Memorandum, they must sign a non-disclosure agreement. This document serves the vital purpose of protecting the target company's data and trade secrets. It prevents the unauthorized use of shared information and includes clauses to prevent actions like poaching staff, ensuring that the company's interests are protected during the evaluation.

85. (C) 200 individuals
Under the Companies Act of 2013, private companies can raise capital through private placements without a public offering. Section 42 limits the number of individuals to whom such an offer can be made to a maximum of two hundred in a financial year. This limit excludes qualified institutional buyers and employees under stock option plans, ensuring the process remains private.

86. (C) 19%
The Indian private equity and venture capital landscape experienced robust growth over the last decade. Between 2011 and 2020, investments in these asset classes grew at a compound annual growth rate of nineteen percent. This significant growth rate reflects the increasing maturity of the Indian startup ecosystem and the rising interest from both domestic and international institutional investors in private markets.

87. (B) I, II, IV, and V
Private equity transactions involve several critical stages to ensure a successful deal. These include granting virtual data access for validation, conducting management meetings

CHAPTER 22
Artificial Intelligence

Oct/Nov 2015

1. Which of the following statements about the applicability of AI is incorrect?
(A) One theoretical perspective suggests that a significant amount of AI is used in general applications without being formally classified as AI.
(B) Once something becomes valuable and ubiquitous, it is always explicitly marketed as AI.
(C) AI algorithms combine real-time data from sensors, remote inputs, and digital data to make decisions.
(D) Intelligent computer assisted instruction (CAI) observes a student's efforts as they work to solve a problem.

May/June 2007

2. Match the technologies in List-I with their core features in List-II:
List I: (Technology)
P. RankBrain
Q. AI Hub
R. Kubeflow Pipelines
S. Google Duplex
List II: (Feature)
1. Schedules phone appointments using AI-controlled voice with "ums" and pauses
2. Organizes search queries into word vectors based on linguistic similarity
3. Container-centric end-to-end machine learning processes
4. A one-stop shop for plug-and-play machine learning content
(A) P-4, Q-2, R-1, S-3
(B) P-2, Q-4, R-3, S-1
(C) P-3, Q-1, R-2, S-4
(D) P-1, Q-3, R-4, S-2

Oct/Nov 2023

3. Consider the following statements regarding Google Duplex:
I. It was initially announced by Google CEO Sundar Pichai in May 2018.
II. It requires users to manually input response logic into the smartphone screen during a call.
III. It can schedule appointments using an AI voice that adds "ums" and pauses to appear human-like.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

May/June 2021

4. The following questions consist of two statements — Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.
Assertion (A): Neural networks are highly successful when there are numerous input variables with non-linear correlations with the target variable.
Reason (R): The structure of a neural net simply needs to be stated in terms of nodes and hidden layers, eliminating the need for the analyst to manually define non-linearities or interactions between predictors.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2011

5. Read the following scenario and answer the question. A FinTech firm analyzes both traditional and non-traditional data sources to estimate creditworthiness, similar to notable businesses utilizing alternative lending systems. Which of the following pairs of companies are examples of such alternative lending providers?
(A) Affirm and GiniMachine
(B) Google and Amazon

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May/June 2019

20. Match the historical figures in List-I with their contributions in List-II:

List I: (Historical Figure)

P. Alan Turing
Q. Noam Chomsky
R. W. Ross Ashby
S. Ktesibios of Alexandria

List II: (Contribution)

1. Built a water clock with a steady flow rate regulator
2. Suggested an imitation game to assess machine intelligence
3. Authored the book Syntactic Structures
4. Pioneer of control theory concepts in the UK and established the Ratio Club

(A) P-2, Q-3, R-4, S-1
(B) P-4, Q-1, R-2, S-3
(C) P-3, Q-4, R-1, S-2
(D) P-1, Q-2, R-3, S-4

Oct/Nov 2022

21. Consider the following statements regarding Rational Agents:

I. A rational agent can be a person, company, machine, or software making decisions.
II. An agent's environment includes everything in the world outside of the agent, but does not include the agent itself.
III. Multi-agent planning leverages only the collaboration of agents, strictly avoiding any rivalry.

Which of the above statement(s) is/are correct?

(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2010

22. The following questions consist of two statements — Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.

Assertion (A): Thorough, simple searches are generally sufficient to solve the vast majority of problems that arise in the real world.

Reason (R): Heuristics are utilized to prune the search tree by removing options that are not likely to result in the achievement of a goal.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2006

23. Read the following scenario and answer the question.

A retail chain decides to use probabilistic tools based on decision theory and information value theory to assess how its autonomous agent should make pricing plans.

The probabilistic tool is evaluating the agent's:

(A) Combinatorial logic
(B) Utility
(C) Compliant motion
(D) Syntactic structure

May/June 2014

24. Which statement correctly characterizes Neural Networks?

(A) They are entirely dependent on making strict assumptions regarding linearity and normalcy.
(B) They are incapable of working with continuous dependent variables.
(C) They succeed when numerous input variables have non-linear correlations with the target.
(D) They define a specific statistical regression model before inputted data is processed.

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Oct/Nov 2025

25. Arrange the following landmark publications and concepts in the correct chronological order of their introduction:

I. John McCarthy coins the term "artificial intelligence"
II. Norbert Wiener publishes "Cybernetics"
III. B. F. Skinner releases "Verbal Behaviour"
IV. Google officially confirms the adoption of RankBrain

(A) I, II, III, IV
(B) II, I, III, IV
(C) III, I, II, IV
(D) II, III, I, IV

May/June 2017

26. Consider the following statements regarding neural networks:

I. When there are numerous input variables with non-linear correlations with the

Q. Heuristics
R. Compliant motion
S. Utility

List II: (Definition)

1. A measurement of how valuable something is to an intelligent agent
2. "Rules of thumb" that rank options to achieve a goal with fewer steps
3. Moving while retaining physical touch with an object
4. Algorithms becoming exponentially slower as the size of the issues increases

(A) P-4, Q-2, R-3, S-1
(B) P-2, Q-4, R-1, S-3
(C) P-3, Q-1, R-2, S-4
(D) P-1, Q-3, R-4, S-2

May/June 2016

14. Consider the following statements regarding Knowledge Representation:

I. An ontology is a formal description of "what exists."
II. Upper ontologies provide a basis for all other information and mediate between domain ontologies.
III. The breadth of commonsense information is considered small and easy to program into artificial intelligence.
IV. The sub-symbolic nature of commonsense knowledge presents a major challenging problem in AI.

Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) I, II, and IV
(C) II, III, and IV
(D) I, III, and IV

Oct/Nov 2008

15. The following questions consist of two statements — Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.

Assertion (A): Modern expert systems are completely flawless and can complete any task assigned to them without limitations.

Reason (R): There is a need to use Artificial Intelligence judiciously to ensure it remains a beneficial tool for society.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2022

16. Read the following scenario and answer the question. Because an autonomous vehicle operates in an environment with other cars (agents), the vehicle must continually reevaluate its surroundings and reason under:
(A) Absolute certainty
(B) Uncertainty
(C) Heuristic pruning
(D) Paraconsistent logic

Oct/Nov 2017

17. How is "motion planning" defined in the context of robotics?
(A) The process of reducing movement jobs to basic components like joint movements
(B) The method of ranking available options to accomplish a goal in a shorter time
(C) The process of mapping an environment and determining a robot's global position
(D) The technique of moving while retaining constant physical touch with an object

May/June 2005

18. According to historical records, who is credited with building the earliest self-controlling machine, a water clock with a regulator?
(A) James Watt
(B) Cornelis Drebbel
(C) Norbert Wiener
(D) Ktesibios of Alexandria

Oct/Nov 2012

19. Which statement about control theory and cybernetics is incorrect?
(A) Noam Chomsky argued that behaviourist theory successfully explained linguistic creativity.
(B) Norbert Wiener collaborated with Arturo Rosenblueth and Julian Bigelow to question behaviourist dogma.
(C) James Watt developed the steam engine governor, a type of self-regulating feedback control system.
(D) Ktesibios of Alexandria built a water clock with a regulator around 250 B.C.

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but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2021

46. Read the following scenario and answer the question.
A major advantage of using a neural network for credit scoring is that the analysts do NOT need to worry about:
(A) The number of nodes and hidden layers
(B) The physical maintenance of hardware servers
(C) Non-linearities or interactions between predictors
(D) Providing any form of data to the system

Oct/Nov 2011

47. How is "utility" measured in the context of an intelligent agent?
(A) As the degree of truth, ranging between 0 and 1
(B) As the computational complexity of the sample data required
(C) As a measurement of how valuable something is to an intelligent agent
(D) As the semantic closeness of word vectors within a representation

May/June 2018

48. Identify the correct statement regarding Google RankBrain.
(A) It was officially confirmed in May 2018 at the Google I/O developer conference.
(B) It handles unfamiliar words by speculating on meanings and filtering search results.
(C) It provides results that are within 50% of those produced by human search engineers.
(D) It solely relies on first-order logic to resolve syntactic ambiguities in search queries.

Oct/Nov 2005

49. What is arguably one of the greatest benefits that robotics has to offer across various industrial sectors?
(A) Improving aesthetics of modern manufacturing floors.
(B) Completely replacing the need for creative and adaptable human decision-making.
(C) Enhancing safety by removing humans from hazardous or unhealthy environments.
(D) Replicating exact human emotions during physical customer service interactions.

May/June 2013

50. Which of the following of pairs regarding AI pioneers and their contributions is incorrectly matched?
(A) Norbert Wiener — Wrote "Syntactic Structures"
(B) Alan Turing — The imitation game
(C) John McCarthy — Coined the term "artificial intelligence"
(D) B. F. Skinner — Released "Verbal Behaviour"

Oct/Nov 2024

51. Consider the following milestones and features in the history and development of AI:
I. Alan Turing suggested the imitation game to test machine intelligence.
II. The Dartmouth Conference established AI as a separate field.
III. Theoretical research has shown how AI blends into general infrastructure.
IV. Kubeflow Pipelines orchestrate component containers in ML workflows.
V. The thermostat developed by Cornelis Drebbel is an early example of self-regulating feedback.
Which of the above statement(s) is/are correct?
(A) I, II, III, and V
(B) II, III, IV, and V
(C) I, II, IV, and V
(D) I, II, III, IV, and V

May/June 2025

52. Read the following scenario and answer the question.
A company utilizes a container-centric system that orchestrates pipelines using reusable workflows without vendor lock-in.
The container-centric system being used to compose and deploy these reusable ML workflows is called:
(A) Combinatorial Explosion Modeler
(B) Bayesian Inference Engine
(C) Heuristic Pruning System
(D) Kubeflow Pipeline System

Oct/Nov 2014

53. What is the core conceptual function of the Kubeflow Pipelines system?
(A) It manages customer engagement by

NODIA

target variable, neural nets are especially successful.

II. A neural net requires the analyst to manually define non-linearities and interactions between predictors before training.

Which of the statements is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2009

27. Consider the following statements regarding learning paradigms in AI:

I. Supervised learning can be broken down into classification and numerical regression.
II. Unsupervised learning looks for patterns in a continuous stream of data.
III. In reinforcement learning, the agent is rewarded for appropriate replies.
IV. Transfer learning is used to apply learned skills to completely different challenges.
V. Classification builds a function predicting output changes from inputs, while regression places items into categories.

Which of the above statement(s) is/are correct?

(A) I, II, III, and IV
(B) II, III, IV, and V
(C) I, III, IV, and V
(D) I, II, IV, and V

May/June 2024

28. Read the following scenario and answer the question.

If clients are placed on hold by large enterprises, an AI provides a feature that maintains their position in the queue and alerts them when it is their turn to speak.

This feature is known as:

(A) Means-ends analysis
(B) Transfer learning
(C) Compliant motion
(D) Hold For Me

Oct/Nov 2019

29. What is the definition of an "ontology" in knowledge representation?

(A) A search methodology that removes unlikely options to prune the search tree
(B) A process of searching for a path that leads from premises to logical conclusions
(C) A set of formally characterised concepts and relations for software interpretation
(D) A formal mathematical model that evaluates the utility of specific logical outcomes

May/June 2011

30. What occurs during a "combinatorial explosion" in problem-solving algorithms?

(A) The system exponentially accelerates as more facts are added to the knowledge representation.
(B) The neural network creates a hybrid structure combining fuzzy and genetic systems to process data.
(C) The search tree is rapidly pruned using heuristics, resulting in an immediate logical proof.
(D) The algorithms become exponentially slower as issues increase, rendering them ineffective.

Oct/Nov 2007

31. What is the primary reason Chatbots offer a very high return on investment (ROI) in the banking sector?

(A) They handle routine tasks, relieving strain on customer service call centres.
(B) They possess deep understanding of complex investment equities.
(C) They utilize hybrid information systems to directly predict stock market fluctuations.
(D) They monitor internal data breaches to thwart cyber assaults automatically.

NODIA

May/June 2023

32. Which of the following pairs is correctly matched regarding Google's technological features?

(A) Kubeflow Pipelines — Exclusively designed to map queries into linguistic word vectors
(B) Hold For Me — Maintains your position in a phone wait while you attend to other business
(C) Google Duplex — A visual recognition tool to diagnose diseases via video calls
(D) AI Hub — A search engine algorithm used for 100% of queries since 2015

Oct/Nov 2018

33. Consider the following statements describing the development of modern computational linguistics:

I. B. F. Skinner released "Verbal Behaviour" describing a behaviorist approach.

II. Noam Chomsky critiqued Skinner's theory, noting it couldn't explain creativity in language.
III. Modern linguistics and AI developed simultaneously, eventually combining to form natural language processing.
IV. The issue of language comprehension was discovered to be much easier than initially perceived in 1957.

Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) I, II, and IV
(C) II, III, and IV
(D) I, III, and IV

May/June 2006

34. Read the following scenario and answer the question.
Following the implementation of a customer service AI, a bank's wealth management division implements an automated system that analyzes a customer's financial health and history to recommend specific product classes and equities.
This automated system is known as:
(A) Robo Advice
(B) Google RankBrain
(C) First-order logic calculus
(D) Support Vector Machine

Oct/Nov 2013

35. Read the following scenario and answer the question.
SecureBank is facing complex cybersecurity challenges. They deploy an AI system that monitors internal networks for breaches and learns patterns from previously experienced external threats to forecast and thwart assaults.
The application of AI to monitor internal risks, forecast assaults, and prevent data theft at SecureBank falls under the banking AI category of:
(A) Robo Advice
(B) Portfolio Management
(C) Cybersecurity
(D) Semantic natural language applications

May/June 2020

36. Which of the following books did Norbert Wiener publish in 1948, sparking public awareness about artificially intelligent machines?
(A) Syntactic Structures
(B) Design for a Brain
(C) Cybernetics
(D) Verbal Behaviour

Oct/Nov 2010

37. Which of the following is NOT one of the disciplines directly linked to Artificial Intelligence?
(A) Botany
(B) Psychology
(C) Philosophy
(D) Sociology

May/June 2012

38. Match the learning methods in List-I with their characteristics in List-II:
List I: (Learning Method)
P. Classification
Q. Regression
R. Reinforcement learning
S. Transfer learning
List II: (Characteristic)
1. Agent is rewarded for appropriate replies and disciplined for inappropriate ones
2. Utilizes skills learned for one problem to solve a completely different challenge
3. Tries to build a function predicting how outputs change based on input changes
4. Identifies which category something should be placed in

(A) P-2, Q-1, R-4, S-3
(B) P-4, Q-3, R-1, S-2
(C) P-3, Q-4, R-2, S-1
(D) P-1, Q-2, R-3, S-4

Oct/Nov 2016

39. Consider the following statements about Bayesian networks:
I. They are general tools that can be used for reasoning, learning, and perception.
II. They rely on the expectation-maximization algorithm for learning.
III. They are entirely incapable of predicting or smoothing streams of data across time.

Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

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May/June 2015

40. The following questions consist of two statements — Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.
Assertion (A): Famous reviews of "Verbal Behaviour" nearly entirely extinguished people's interest in behaviourism in linguistics.
Reason (R): The critique pointed out that behaviourist theory successfully explained how a child could understand and make up words never heard before.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2021

41. Read the following scenario and answer the question.
EduTech Innovations is building a software application to help students solve complex mathematical problems. The software observes the student's step-by-step problem-solving efforts, recognizes when they slip into incorrect assumptions, and acts as a tutor providing specific guidance.
The concept implemented here was proposed by cognitive scientists and is formally known as:
(A) Natural Language Processing (NLP)
(B) Hybrid Information System (HIS)
(C) Support Vector Machine (SVM)
(D) Intelligent Computer Assisted Instruction (CAI)

May/June 2008

42. Identify the incorrect statement regarding the history of artificial intelligence.
(A) The academic discipline of AI was born as a field of study in the 1950s.
(B) Alan Turing suggested a test where a machine plays an imitation game to pass as a human.
(C) Most AI research between 1956 and 1966 focused on practical commercial product development.
(D) The Dartmouth Conference was essential in establishing AI as a separate field of study.

Oct/Nov 2015

43. Match the AI application areas in List-I with their corresponding descriptions in List-II:
List I: (Application Area)
P. Transportation
Q. Manufacturing
R. Education
S. Customer Services
List II: (Description)
1. Virtual tutors and facial analysis to gauge emotions
2. Autonomous cars ferrying people from place to place
3. Systems understanding context and nuance to attend calls and book appointments
4. Powered robots working alongside humans for assembly and stacking
(A) P-2, Q-4, R-1, S-3
(B) P-1, Q-2, R-4, S-3
(C) P-4, Q-3, R-2, S-1
(D) P-3, Q-1, R-4, S-2

May/June 2007

44. Consider the following statements regarding machine learning methodologies:
I. Training a classifier requires moving ahead without settling on any predefined class.
II. Conventional wisdom holds that discriminative classifiers tend to be more accurate than model-based classifiers on most practical data sets.
Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2023

45. The following questions consist of two statements — Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.
Assertion (A): Google's RankBrain is highly effective at dealing with search queries or keywords that have never been seen before.
Reason (R): RankBrain encounters unfamiliar words by mapping the query into word vectors to find words or clusters with the highest probability of matching linguistic similarity.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true,

NODIA

to visualize historical banking transactions

May/June 2005

60. In which year was the term "artificial intelligence" first coined by John McCarthy?
(A) 1950
(B) 1956
(C) 1966
(D) 1948

Oct/Nov 2012

61. Identify the incorrect statement regarding the application of AI in Banking and Finance.
(A) Robo-advisors evaluate a client's financial data to make appropriate investment recommendations.
(B) Predictive analytics can recognize specific patterns to imply unmet sales prospects and cross-sell potential.
(C) AI can monitor internal risks or breaches and advise remedial steps for cybersecurity.
(D) Chatbots offer low ROI because they struggle with routine tasks like checking balances.

May/June 2019

62. Match the Banking AI applications in List-I with their functions in List-II:
List I: (Application)
P. Chatbot
Q. Robo Advice
R. Predictive Analytics
S. Cybersecurity
List II: (Function)
1. Recognizes patterns to identify unmet sales prospects and cross-sell potential
2. Evaluates client data to make appropriate investment recommendations
3. Utilizes data from previous threats to forecast and thwart assaults
4. Efficiently handles tasks like checking balances and fund transfers
(A) P-4, Q-2, R-1, S-3
(B) P-2, Q-4, R-3, S-1
(C) P-1, Q-3, R-2, S-4
(D) P-3, Q-1, R-4, S-2

Oct/Nov 2022

63. Consider the following statements about AI and Morality:
I. One school of thought believes there is little to no reason to create mechanical labourers that think independently.
II. Another group contends human civilization cannot advance without machines capable of independent thought.
III. A third school, representative of human society in general, has absolutely no interest in the matter at all.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2010

64. The following questions consist of two statements — Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.
Assertion (A): Early artificial intelligence algorithms that mirrored step-by-step deductive reasoning were highly effective at solving huge reasoning problems.
Reason (R): These algorithms suffered from a "combinatorial explosion," causing them to become exponentially slower as the size of the issues increased.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2006

65. Read the following scenario and answer the question.
MegaMart, a large retail chain, uses AI to analyze historical operational data to uncover hidden patterns. The AI system alerts MegaMart to unmet sales prospects and suggests items to cross-sell to specific customer segments.
The technology MegaMart is using to recognize correlations and uncover unmet sales prospects is called:
(A) Fuzzy Logic
(B) Chatbot Engagement
(C) Motion Planning
(D) Predictive Analytics

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replacing human operators in call centers.
(B) It maps search queries into distributed representations for linguistic similarity.
(C) It provides automated investment recommendations based on financial health data.
(D) It orchestrates machine learning workflows using containers in a specified graph.

May/June 2009

54. The AI Hub provides access to various machine learning contents. Which of the following is NOT mentioned as part of the AI Hub content?
(A) Jupyter notebooks
(B) K-nearest neighbour legacy hardware systems
(C) TensorFlow modules
(D) Pipelines

Oct/Nov 2020

55. Match the probabilistic and statistical tools in List-I with their descriptions in List-II:
List I: (Tool)
P. Bayesian networks
Q. Decision tree
R. Support Vector Machine (SVM)
S. Means-ends analysis
List II: (Description)
1. A planning algorithm that searches through trees of goals and sub-goals
2. A very general tool developed by an inference algorithm for reasoning, learning, and perception
3. A symbolic machine learning algorithm that is the easiest to understand
4. A discriminative classifier that caused k-nearest neighbour to become obsolete
(A) P-4, Q-3, R-2, S-1
(B) P-1, Q-2, R-4, S-3
(C) P-2, Q-3, R-4, S-1
(D) P-3, Q-4, R-1, S-2

May/June 2016

56. Which of the following are components or features associated with the AI Hub and Kubeflow Pipeline System?
I. Jupyter notebooks
II. TensorFlow modules
III. Reusable end-to-end ML workflows
IV. Lock-in requirements restricting deployment to a single private server
Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, and IV

Oct/Nov 2008

57. The following questions consist of two statements — Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.
Assertion (A): Chatbots offer a very high return on investment (ROI) in the banking industry.
Reason (R): Chatbots effectively handle majority tasks like checking balances and fund transfers, relieving strain placed on customer service call centres.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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May/June 2022

58. Read the following scenario and answer the question.
A logistics firm deploys robotic arms in their warehouse and autonomous vehicles for delivery. The robotic arms are required to move packages along a conveyor belt while maintaining constant physical touch with the items so they don't fall.
The type of movement performed by the robotic arms, involving moving while retaining physical touch with the package, is referred to as:
(A) Unsupervised learning
(B) Compliant motion
(C) Means-ends analysis
(D) Combinatorial explosion

Oct/Nov 2017

59. What does the term "artificial intelligence" fundamentally refer to?
(A) The physical manufacturing of robotic entities that perform labor-intensive tasks
(B) The replication of human intelligence in computers trained to emulate human thinking
(C) The development of advanced software to store biological human memories on digital servers
(D) The statistical modeling of structured data

(C) Ratio Club and Kubeflow
(D) Dartmouth and Chomsky

May/June 2018

6. Which of the following statements correctly describes "Hold for Me"?
(A) It allows users to place automated restaurant reservations via Google Duplex worldwide.
(B) It maintains a user's position in a wait queue and signals when it is their turn to speak.
(C) It provides real-time predictive analytics to banking customers regarding loan decisions.
(D) It is a plugin for the AI Hub that schedules machine learning workflows.

Oct/Nov 2005

7. What is the most appropriate description of the primary function of "Upper ontologies"?
(A) They represent the sub-symbolic nature of commonsense knowledge.
(B) They map queries into word vectors using distributed representations.
(C) They execute local searches in configuration space for moving limbs.
(D) They act as mediators between domain ontologies and provide a basis for all data.

May/June 2013

8. Consider the following statements regarding Google RankBrain:
I. It is a search engine algorithm that maps search queries into word vectors to find linguistic similarity.
II. It was reported to be the third most significant factor in the ranking algorithm.
Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2024

9. Consider the following statements regarding tools and techniques of Artificial Intelligence:
I. Logical proof searches for a path from premises to conclusions.
II. Heuristics prune the search tree to manageable options.
III. Fuzzy logic applies a degree of truth between 0 and 1.
IV. Bayesian inference algorithms solely handle strictly deterministic environments.
V. Classifiers determine the closest match by comparing patterns.
Which of the above statement(s) is/are correct?
(A) I, II, III, and V
(B) I, II, IV, and V
(C) II, III, IV, and V
(D) I, III, IV, and V

May/June 2025

10. Read the following scenario and answer the question. By utilizing the Kubeflow system, data scientists avoid the issue of being restricted to a single environment.
This specific advantage is described as:
(A) Removing combinatorial explosions
(B) Providing a degree of truth between 0 and 1
(C) A hybrid solution without lock-in
(D) Assisting cognitive scientists in education

Oct/Nov 2006

11. Why do discriminative classifiers, such as Support Vector Machines (SVM), typically outperform model-based classifiers like naive Bayes on practical data sets?
(A) Discriminative classifiers are significantly easier to understand and employ on symbolic machine learning tasks.
(B) Discriminative classifiers are able to take into account more factors when making their predictions.
(C) Discriminative classifiers completely eliminate the need for any labeled training dataset.
(D) Discriminative classifiers use probabilistic Bayesian logic to completely bypass combinatorial explosions.

May/June 2009

12. The AI Hub provides access to various machine learning contents. Which of the following is NOT mentioned as part of the AI Hub content?
(A) Jupyter notebooks
(B) K-nearest neighbour legacy hardware systems
(C) TensorFlow modules
(D) Pipelines

Oct/Nov 2020

13. Match the terminology in List-I with the correct definition in List-II:
List I: (Terminology)
P. Combinatorial explosion

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May/June 2014

66. Identify the correct statement regarding Hybrid Information Systems (HIS).
(A) They combine various AI methodologies like fuzzy expert, neuro-fuzzy, and genetic systems.
(B) They are strictly utilized for natural language processing and syntactic structuring.
(C) They are purely mechanical controllers that regulate steam engines and thermostats.
(D) They explicitly require humans to identify the input data without algorithmic support.

Oct/Nov 2025

67. What is the primary reason why educators and cognitive scientists advocate for intelligent computer assisted instruction (CAI)?
(A) It acts as a tutor that guides students when they make incorrect assumptions.
(B) It strictly eliminates the need for human instructors by grading exams automatically.
(C) It allows the institution to cut administrative costs by predicting student enrollment.
(D) It converts the entire curriculum into first-order logic formats.

May/June 2017

68. Consider the following statements regarding Hybrid Information Systems (HIS):
I. HIS combines the beneficial aspects of various learning paradigms, such as neuro-fuzzy and genetic-fuzzy systems.
II. In finance, HIS has seen widespread use exclusively for ATM cash dispensing mechanics.
Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2009

69. Consider the following statements about robotics and motion manipulation:
I. Robotics use localization to map surroundings.
II. Motion planning reduces movement to basic components like joint movements.
III. Compliant motion requires breaking physical touch with objects continually.
IV. Safety is a major benefit of using robots in hazardous environments.
V. Certain jobs requiring creativity are better suited for humans than robots.
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV
(B) I, II, IV, and V
(C) II, III, IV, and V
(D) I, III, IV, and V

May/June 2024

70. Read the following scenario and answer the question.
OmniServices relies heavily on outbound calling to schedule appointments with clients. To scale their operations, they integrate an AI voice technology that can comprehend human speech on the other end of the line, make appropriate responses, and even insert human-like "ums" and pauses.
Which AI technology is OmniServices most likely utilizing?
(A) Hybrid Information System
(B) Google Duplex
(C) Intelligent Computer Assisted Instruction
(D) K-nearest neighbour algorithm

Oct/Nov 2019

71. In machine learning, what fundamentally distinguishes regression from classification?
(A) Regression learns functions to map categories, while classification predicts continuous changes.
(B) Regression filters spam emails, while classification maps numerical vectors into datasets.
(C) Classification places items into categories, while regression predicts continuous output changes.
(D) Classification rewards agents for replies, while regression disciplines them for errors.

May/June 2011

72. Several extensions of logic have been designed to handle particular spheres of expertise. Which of the following is NOT an example of a logic extension mentioned?
(A) Fluent calculus
(B) Belief calculus
(C) Situation calculus
(D) Combinatorial logic

Oct/Nov 2007

73. Which of the following pairs is correctly matched regarding AI classifiers?

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27. (A) I, II, III, and IV
Supervised learning includes classification and regression, while unsupervised learning identifies patterns in data streams. Reinforcement learning rewards agents for correct responses, and transfer learning applies skills to new problems. However, the description of classification and regression is swapped; classification places items into categories, while regression predicts continuous numerical outputs based on changes in input variables.

28. (D) Hold For Me
The "Hold For Me" feature is an AI-driven service that manages the experience of being placed on hold during phone calls. It monitors the call and maintains the user's position in the wait queue. When a human representative joins the call, the system alerts the user, allowing them to focus on other tasks while waiting on hold.

29. (C) A set of formally characterised concepts and relations for software interpretation
In the context of knowledge representation, an ontology is a formal characterization of concepts and the relations between them. It provides a structured framework that allows software to interpret and reason about information within a specific domain. By defining the entities and their interactions, ontologies facilitate data sharing, interoperability, and common understanding between computer systems.

30. (D) The algorithms become exponentially slower as issues increase, rendering them ineffective.
A combinatorial explosion occurs when the number of possible states or paths in a problem increases exponentially with the size of the input. This causes algorithms to become significantly slower, eventually rendering them ineffective for large-scale reasoning or search tasks. It is a major challenge in artificial intelligence that requires strategies like heuristics to manage and prune.

31. (A) They handle routine tasks, relieving strain on customer service call centres.
Chatbots provide a high return on investment in banking because they efficiently manage high-volume, routine tasks such as checking account balances or performing fund transfers. By automating these simple inquiries, they significantly reduce the workload on human customer service agents. This leads to cost savings and improved operational efficiency without requiring complex investment equity analysis.

32. (B) Hold For Me — Maintains your position in a phone wait while you attend to other business
The "Hold For Me" feature is correctly described as an AI tool that maintains a user's position in a telephone wait queue and signals them when it is time to speak. Other options are incorrect because RankBrain, not Kubeflow, maps queries to word vectors, and Google Duplex is an appointment scheduling voice AI rather than a diagnostic tool.

33. (A) I, II, and III
B. F. Skinner's behaviorist approach in "Verbal Behaviour" was challenged by Noam Chomsky, who noted that it could not explain human linguistic creativity. This debate, alongside the development of AI, led to the field of natural language processing. The complexity of language comprehension was actually found to be much harder than researchers initially estimated in 1957.

34. (A) Robo Advice
Robo Advice refers to automated financial planning platforms that use algorithms to manage investment portfolios. By analyzing a customer's financial history, risk tolerance, and goals, these systems provide personalized recommendations for equities and product classes. This automation streamlines wealth management, offering advice that was traditionally provided by human financial advisors through data-driven insights.

35. (C) Cybersecurity
The application of AI to monitor networks, identify patterns from previous threats, and forecast potential breaches falls directly under the category of cybersecurity. By learning from historical attack data, these systems can proactively thwart assaults and prevent data theft. This use of AI enhances the security posture of financial institutions against increasingly complex and automated cyber threats.

36. (C) Cybernetics
Norbert Wiener published "Cybernetics" in 1948, a seminal work that explored the relationship between control and communication in animals and machines. This book played a crucial role

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assembly and stacking.
III. Customer service AI systems will understand context and nuance, in addition to words.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

Oct/Nov 2016

81. The following questions consist of two statements — Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.
Assertion (A): Bayesian networks are a specialized tool used exclusively for natural language processing and syntactic structuring.
Reason (R): Bayesian networks are developed using dynamic Bayesian networks to solve probabilistic problems including reasoning, learning, and perception.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2015

82. Read the following scenario and answer the question.
A company decides to use an algorithm to map patterns of customer purchases.
A function that determines the closest possible match by comparing a pattern to a given pattern is called a:
(A) Decision tree
(B) Heuristic
(C) Classifier
(D) Upper ontology

Oct/Nov 2021

83. Which of the following correctly describes "heuristics" in artificial intelligence?
(A) They are methods to strictly prove mathematical theorems using step-by-step logic.
(B) They are neural networks specifically designed for unsupervised learning without labels.
(C) They are the basic components of compliant motion in robotics.
(D) They are rules of thumb that rank options to achieve a goal in a shorter amount of time.

May/June 2008

84. Arrange the development of the following self-regulating systems and theories in the correct chronological order:
I. The thermostat developed by Cornelis Drebbel
II. The steam engine governor developed by James Watt
III. The water clock with a regulator built by Ktesibios of Alexandria
IV. The mathematical theory behind reliable feedback systems (Nineteenth century)
(A) III, I, II, IV
(B) III, II, I, IV
(C) I, III, II, IV
(D) II, I, IV, III

Oct/Nov 2015

85. Consider the following statements about Control Theory and Linguistics:
I. Noam Chomsky argued that behaviourist theory did not handle the concept of creativity in language.
II. Chomsky's theory was based on syntactic models that share concepts with ancient linguistic structures.
Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2007

86. The following questions consist of two statements — Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.
Assertion (A): The field of artificial intelligence is rarely given credit for the successes it has produced in general applications.
Reason (R): One theoretical perspective suggests that once an AI application becomes valuable and ubiquitous enough, it is no longer considered to be AI.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation

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of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2023

87. Read the following scenario and answer the question.
A modern FinTech company evaluates the creditworthiness of individuals who have thin or low credit histories. To do this, they use an AI framework that requires no specific statistical model to be predefined, does not assume linearity, and connects thousands of non-linear input variables into nodes and hidden layers to learn from the data organically.
Which core AI methodology is being used for its credit scoring?
(A) Neural Networks
(B) Propositional logic
(C) Bayesian networks
(D) Means-ends analysis

May/June 2021

88. Which of the following defines "compliant motion"?
(A) Moving an object rapidly through dynamic environments like a patient's breathing body
(B) A self-regulating feedback control system adjusting a machine's actions
(C) The step-by-step reduction of movement jobs to basic joint maneuvers
(D) A type of movement that involves moving while retaining physical touch with an object

Oct/Nov 2011

89. How does fuzzy logic assign value to statements that are too linguistically imprecise to be definitively true or false?
(A) It provides a degree of truth that ranges anywhere from 0 to 1.
(B) It maps them exclusively to discrete integers 0, 1, or -1.
(C) It categorizes them into categorical dependent variables using decision trees.
(D) It relies entirely on first-order logic quantifiers to force a binary true/false output.

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May/June 2018

90. Which of the following best describes the process of "transfer learning"?
(A) An agent being rewarded for appropriate replies and disciplined for inappropriate ones.
(B) The skills learned to solve one problem being utilized to solve a different challenge.
(C) The computer learning to classify new inputs after seeing instances that belong to different categories.
(D) A continuous stream of data being analyzed for patterns without initial human supervision.

Oct/Nov 2005

91. Which of the following pairs of logic extensions and their focus is incorrectly matched?
(A) Fluent calculus — Representing events and time
(B) Default logics — Syntactic sentence formations in linguistics
(C) Belief calculus — Belief revision
(D) Paraconsistent logics — Simulating contradictory or inconsistent assertions

May/June 2013

92. Consider the following identified as fundamental aspects or applications of artificial intelligence in modern financial institutions:
I. Cybersecurity and fraud detection
II. Chatbots
III. Loan and credit decisions
IV. Tracking market trends
V. Predictive analytics
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV
(B) II, III, IV, and V
(C) I, III, IV, and V
(D) I, II, III, IV, and V

Oct/Nov 2024

93. Read the following scenario and answer the question. TechCorp wants to improve the deployment of its machine learning models. The data scientists currently struggle with sharing models securely across the organization. To resolve this, they adopt a one-stop shop provided by Google that offers plug-and-play machine learning content in a protected portal.
Which Google platform is TechCorp using to securely share and upload plug-and-play ML

content like Jupyter notebooks and TensorFlow modules?
(A) RankBrain
(B) Google Duplex
(C) AI Hub
(D) Hold For Me

May/June 2025

94. Read the following scenario and answer the question.
To classify new threats, SecureBank uses a machine learning algorithm that is reported to be used extensively due to its scalability, though conventional wisdom says discriminative models might be more accurate.
The specific model-based classifier algorithm utilized by SecureBank is:
(A) K-nearest neighbour
(B) Support Vector Machine (SVM)
(C) Decision tree
(D) Naive Bayes

Oct/Nov 2014

95. Read the following scenario and answer the question.
An ultimate significant advantage for a student using an Intelligent Computer Assisted Instruction (CAI) system is:
(A) Emulating thinking to increase self-assurance
(B) Eliminating the need to read digital textbooks
(C) Passing university exams without study effort
(D) Building complex neural networks from scratch

May/June 2009

96. Who was the author of the 1957 book "Verbal Behaviour," which described the behaviourist method of language acquisition?
(A) B. F. Skinner
(B) Noam Chomsky
(C) W. Ross Ashby
(D) John von Neumann

Oct/Nov 2020

97. The Kubeflow Pipeline System packages machine learning code to make it accessible to other users. Which of the following is NOT an advantage of Kubeflow Pipelines?
(A) It offers a workbench for the composition, deployment, and management of reusable end-to-end ML workflows.
(B) It allows users to conduct experiments in a quick and dependable manner.
(C) It is a container-centric end-to-end machine learning process.
(D) It introduces a rigid lock-in mechanism that restricts prototyping strictly to single-cloud environments.

May/June 2016

98. Match the foundational AI functions in List-I with their purpose in List-II:
List I: (AI Function)
P. Natural language processing
Q. Knowledge Representation
R. Automated reasoning
S. Machine Learning
List II: (Purpose)
1. Uses saved knowledge to answer questions or draw graphics
2. Stores the auditory inputs and formalizes domain information
3. Adopts all functions to take advantage of newly processed ideas and patterns
4. Makes it possible for computers to communicate effectively in English
(A) P-1, Q-3, R-2, S-4
(B) P-4, Q-2, R-1, S-3
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-1, R-4, S-3

Oct/Nov 2008

99. Consider the following statements regarding the applicability of AI in banking and finance:
I. AI algorithms allow for the detection of fraudulent activity and identification of anomalies.
II. Robo-advisors make detailed investment recommendations based on a client's financial history.
III. Predictive analytics cannot identify unmet sales prospects; it only records past transactions.
IV. AI in cybersecurity utilizes data from previous threats to learn patterns and thwart assaults.
Which of the above statement(s) is/are correct?
(A) I, II, and IV
(B) I, II, and III
(C) II, III, and IV
(D) I, III, and IV

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9. (A) I, II, III, and V
Logic proofs search for paths from premises to conclusions, while heuristics prune search trees to improve efficiency. Fuzzy logic introduces degrees of truth between zero and one for imprecise data. Classifiers compare patterns to identify matches. Bayesian inference algorithms are specifically designed to handle uncertainty and probabilistic reasoning, rather than being restricted to strictly deterministic and certain environments.

10. (C) A hybrid solution without lock-in
Kubeflow provides a container-centric environment that allows data scientists to build and deploy machine learning workflows across diverse platforms. By avoiding proprietary constraints, it offers a hybrid solution that prevents vendor lock-in. This flexibility ensures that users can move their processes between different cloud providers or on-premises servers without being restricted to a single environmental ecosystem.

11. (B) Discriminative classifiers are able to take into account more factors when making their predictions.
Discriminative classifiers like Support Vector Machines generally outperform model-based versions on practical datasets because they account for a wider range of factors. Model-based classifiers like naive Bayes rely on strict assumptions about the data structure. If those assumptions do not perfectly match the actual data, performance suffers. Discriminative models avoid these rigid assumptions, enhancing predictive accuracy.

12. (B) K-nearest neighbour legacy hardware systems
The AI Hub is a centralized repository designed to host and share machine learning assets such as Jupyter notebooks, TensorFlow modules, and end-to-end pipelines. It focuses on software components and reusable workflows to streamline development. It does not include legacy hardware systems like K-nearest neighbour physical equipment, as its primary purpose is the management of digital ML content.

13. (A) P-4, Q-2, R-3, S-1
Combinatorial explosion refers to the exponential slowdown of algorithms as problem size increases. Heuristics are rules of thumb that prioritize options to reach goals faster. Compliant motion involves maintaining physical contact with objects during robotic movement. Utility measures the value or desirability of a specific outcome for an agent. These concepts are fundamental to algorithmic efficiency and robotics.

14. (B) I, II, and IV
Ontologies formally describe what exists, with upper ontologies serving as mediators for broader information. While sub-symbolic knowledge representation is a major challenge in artificial intelligence, the breadth of commonsense information is actually vast and extremely difficult to program. Initial assumptions that commonsense logic was easy to implement proved incorrect, as it involves immense, nuanced data.

15. (D) Assertion (A) is false, but Reason (R) is true.
Modern expert systems are not flawless and possess significant limitations in handling unexpected scenarios or complex human nuances. However, the necessity to use artificial intelligence judiciously is true to ensure its benefits outweigh potential risks to society. While the assertion regarding the perfection of these systems is false, the reasoning about ethical and careful implementation is valid.

16. (B) Uncertainty
Autonomous vehicles operate in dynamic, real-world environments where the behavior of other agents and road conditions cannot be predicted with total certainty. Consequently, these systems must constantly reevaluate sensor data and make decisions under uncertainty. This requires probabilistic reasoning and real-time adjustments to ensure safety, as absolute certainty is impossible in complex, multi-agent transportation settings.

17. (A) The process of reducing movement jobs to basic components like joint movements
Motion planning in robotics is the process of breaking down a complex movement task into a sequence of basic components. This typically involves calculating individual joint movements or actuator paths to move from a starting configuration to a goal state. It ensures that the

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ANSWERS

1. (B) Once something becomes valuable and ubiquitous, it is always explicitly marketed as AI.
AI often integrates into general systems without being explicitly labeled once it becomes common. The "AI effect" suggests that as soon as an AI technique becomes widespread and valuable, it is frequently rebranded as standard computing or software engineering. This contradicts the idea that valuable and ubiquitous technologies are always explicitly marketed as artificial intelligence.

2. (B) P-2, Q-4, R-3, S-1
RankBrain organizes search queries into word vectors for linguistic similarity. The AI Hub serves as a central repository for plug-and-play machine learning content. Kubeflow Pipelines facilitate container-centric end-to-end machine learning processes. Google Duplex utilizes AI-controlled voice with natural pauses and filler words to schedule appointments over the phone, mimicking human conversational patterns effectively.

3. (B) I and III only
Google Duplex was introduced by Sundar Pichai in 2018 to handle real-world tasks over the phone. It utilizes sophisticated AI voice technology that incorporates natural human elements like "ums" to schedule various appointments. The system operates autonomously during the call, meaning it does not require the user to manually input response logic on their screen.

4. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Neural networks excel in environments with complex, non-linear relationships between input and target variables. The architectural design of nodes and hidden layers allows these systems to automatically learn and model intricate interactions without manual intervention. Because the analyst does not need to specify these non-linearities, the structure provides a robust mechanism for handling diverse and numerous predictors.

5. (A) Affirm and GiniMachine
Alternative lending providers leverage non-traditional data sources to evaluate creditworthiness for individuals with limited credit histories. Companies like Affirm and GiniMachine utilize advanced AI algorithms and alternative data points to assess risk more accurately than traditional systems. This approach allows these firms to offer financial services to a broader range of customers by using machine learning models.

6. (B) It maintains a user's position in a wait queue and signals when it is their turn to speak.
The "Hold for Me" feature is designed to improve the user experience during telephone wait times. It utilizes AI to monitor a call while the user is placed on hold by an enterprise. Once a representative is available, the system alerts the user. This allows individuals to attend to other business without manually waiting through long phone queues.

7. (D) They act as mediators between domain ontologies and provide a basis for all data.
Upper ontologies provide a foundational framework that defines the most general concepts and relations used across different domains. They serve as essential mediators between specific domain ontologies, ensuring that data can be shared and understood consistently. By acting as a common basis for all information, they facilitate interoperability and logical consistency within complex knowledge representation systems.

8. (C) Both I and II
Google RankBrain is a machine learning-based search engine algorithm that transforms search queries into word vectors to understand linguistic similarities. Since its implementation, it has become a crucial component of Google's ranking process. Reports indicate that it serves as the third most significant factor in determining search results, significantly improving the processing of never-before-seen search queries.

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(A) Decision tree — A symbolic machine learning algorithm that is easily understood
(B) Naive Bayes — The most popular kernel approach that replaced SVM in the 1990s
(C) K-nearest neighbour — The most extensively used learner due to scalability
(D) Discriminative classifiers — Models that only operate well if the presumed model is an exact mathematical match

May/June 2023

74. Consider the following basic functions of a computer within the domain of Artificial Intelligence:
I. Processing natural language for effective communication
II. Knowledge Representation to store auditory inputs
III. Automated reasoning using saved knowledge to answer questions
IV. Machine Learning to adopt functions based on newly processed ideas
Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) II, III, and IV
(C) I, III, and IV
(D) I, II, III, and IV

Oct/Nov 2018

75. Read the following scenario and answer the question.
Bank Alpha has recently noticed an overload in its customer service call centres, leading to long wait times. The bank decides to implement an AI-powered system to handle routine queries like account balance checks and mini statements.
The AI system implemented to handle these routine queries is best categorized as a:
(A) Robo Advisor
(B) Chatbot
(C) Predictive Analytics engine
(D) Hybrid Information System

May/June 2006

76. Read the following scenario and answer the question.
To reduce the movement of the robotic arms to basic components, such as individual joint movements, a logistics firm utilizes:
(A) Motion planning
(B) Fuzzy logic
(C) Transfer learning
(D) RankBrain

Oct/Nov 2013

77. As of 2015, what percentage of search queries was RankBrain initially utilized for?
(A) Less than 10%
(B) Less than 15%
(C) Exactly 25%
(D) More than 50%

May/June 2020

78. Which of the following statements about tools and techniques of AI is incorrect?
(A) Bayesian networks are developed by the Bayesian inference algorithm.
(B) Means-ends analysis is a planning algorithm that searches through trees of goals and sub-goals.
(C) The k-nearest neighbour algorithm was the most popular ML algorithm well into the 2010s.
(D) Classifiers are functions that determine the closest possible match by comparing a pattern to the pattern being compared.

Oct/Nov 2010

79. Match the types of logic in List-I with their specific characteristics in List-II:
List I: (Logic Type)
P. Propositional logic
Q. First-order logic
R. Fuzzy logic
S. Paraconsistent logic
List II: (Characteristic)
1. Includes quantifiers and predicates in its syntax
2. Simulates contradictory or inconsistent assertions in multi-agent systems
3. Relies on truth functions like "or" and "not"
4. Assigns a "degree of truth" between 0 and 1
(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-3, R-2, S-1
(D) P-2, Q-4, R-1, S-3

May/June 2012

80. Consider the following statements about the future scope of AI:
I. Autonomous cars will ferry people from place to place.
II. AI-powered robots will work alongside humans in manufacturing for tasks like

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robot can navigate its environment and interact with objects without colliding with obstacles.

18. (D) Ktesibios of Alexandria
Ktesibios of Alexandria is credited with creating one of the earliest known self-controlling machines around 250 B.C. He built a water clock that featured a regulator to maintain a steady flow rate. This early invention demonstrated a precursor to modern feedback control systems, showing that the principles of automation and self-regulation have ancient historical roots.

19. (A) Noam Chomsky argued that behaviourist theory successfully explained linguistic creativity.
Noam Chomsky did not argue that behaviorist theory successfully explained linguistic creativity; rather, he famously critiqued it. He pointed out that behaviorism, as proposed by B. F. Skinner, could not account for how humans generate and understand entirely new sentences. Chomsky's work highlighted the limitations of stimulus-response models in explaining the complex, creative nature of human language.

20. (A) P-2, Q-3, R-4, S-1
Alan Turing proposed the imitation game to evaluate machine intelligence, while Noam Chomsky authored "Syntactic Structures." W. Ross Ashby was a pioneer in control theory who established the Ratio Club in the UK. Ktesibios of Alexandria developed the water clock with a steady flow regulator. These individuals made foundational contributions to AI, linguistics, and cybernetic systems.

21. (A) I and II only
A rational agent is an entity, such as a person or software, that makes decisions within an environment representing everything outside itself. While multi-agent planning utilizes collaboration between agents, it also frequently involves managing rivalry and competition. The assertion that multi-agent systems strictly avoid any rivalry is incorrect, as agents often have conflicting goals or limited resources to share.

22. (D) Assertion (A) is false, but Reason (R) is true.
Simple, thorough searches are rarely sufficient for real-world problems because they succumb to combinatorial explosions as complexity increases. Instead, heuristics are used to prune search trees by eliminating unlikely paths toward a goal. While the assertion that simple searches suffice is false, the reason describing the function of heuristics in improving search efficiency is factually correct.

23. (B) Utility
In decision theory, utility represents a measurement of how valuable or desirable a particular outcome is to an agent. By using probabilistic tools to assess pricing plans, the retail chain evaluates which decisions maximize the agent's expected utility. This allows the autonomous system to choose actions that provide the highest benefit or profit based on the available information.

24. (C) They succeed when numerous input variables have non-linear correlations with the target.
Neural networks are particularly effective when dealing with high-dimensional data containing complex, non-linear correlations between input variables and the target. Unlike traditional statistical models that require predefined assumptions about linearity or normalcy, neural networks learn these patterns through training. Their ability to handle continuous dependent variables and intricate interactions makes them powerful tools for sophisticated predictive tasks.

25. (B) II, I, III, IV
Norbert Wiener published "Cybernetics" in 1948, followed by John McCarthy coining the term "artificial intelligence" at the Dartmouth Conference in 1956. B. F. Skinner released "Verbal Behaviour" in 1957. Google RankBrain was officially confirmed and adopted for search much later, in 2015. This sequence reflects the historical progression from foundational cybernetic theory to modern AI applications.

26. (A) Only I
Neural networks are highly successful when processing numerous input variables with complex, non-linear correlations to the target variable. A significant advantage of these systems is that the analyst does not need to manually define these non-linearities or interactions beforehand. The network architecture of nodes and hidden layers enables the system to learn and identify these patterns automatically during training.

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May/June 2022

100. The following questions consist of two statements — Assertion (A) and Reason (R). Answer these questions selecting the appropriate option.

Assertion (A): Discriminative classifiers, like Support Vector Machines (SVM), are generally less accurate than model-based classifiers such as naive Bayes on practical data sets.

Reason (R): Model-based classifiers operate well only if the presumed model is an excellent match for the data actually being used.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

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in bringing the concepts of automated feedback systems and artificial intelligence to public attention. It established a theoretical foundation for the development of self-regulating machines and influenced many future researchers.

37. (A) Botany
Artificial intelligence is an interdisciplinary field that draws from various areas such as psychology, philosophy, and sociology to understand and replicate human intelligence. It also involves computer science, mathematics, and linguistics. Botany, which is the study of plant life, is not directly linked to the core development or theoretical frameworks of artificial intelligence research and applications.

38. (B) P-4, Q-3, R-1, S-2
Classification identifies the category for an item, while regression predicts how outputs change relative to inputs. Reinforcement learning uses rewards and discipline to train an agent based on its actions. Transfer learning involves applying skills acquired from solving one problem to a different challenge. These methods represent the fundamental ways machines learn from and adapt to data.

39. (A) I and II only
Bayesian networks are versatile tools used for reasoning, learning, and perception under uncertainty, often utilizing the expectation-maximization algorithm. They are highly capable of processing time-series data using dynamic Bayesian networks to predict or smooth data streams across time. The claim that they are incapable of handling temporal data streams is factually incorrect in AI research.

40. (C) Assertion (A) is true, but Reason (R) is false.
Noam Chomsky's review of Skinner's "Verbal Behaviour" significantly diminished interest in behaviorist linguistics. The critique was effective because it argued that behaviorism could not explain the inherent creativity of language, such as how children understand sentences they have never heard. While the assertion of the review's impact is true, the reasoning claiming behaviorism explained creativity is false.

41. (D) Intelligent Computer Assisted Instruction (CAI)
Intelligent Computer Assisted Instruction is a system that uses AI to act as a virtual tutor. It observes a student's problem-solving process and identifies misconceptions or incorrect assumptions. By providing targeted guidance and feedback based on the student's specific efforts, it helps improve learning outcomes and builds confidence, reflecting concepts developed by cognitive scientists for educational technology.

42. (C) Most AI research between 1956 and 1966 focused on practical commercial product development.
Most AI research between 1956 and 1966 was focused on foundational theoretical exploration and solving logic problems rather than practical commercial product development. During this era, researchers were building the groundwork for the field, often overestimating how quickly complex problems could be solved. Commercial applications of AI became more prominent much later in the field's development history.

43. (A) P-2, Q-4, R-1, S-3
Transportation involves autonomous vehicles, while manufacturing uses robots for assembly. Education utilizes virtual tutors and facial analysis to track student emotions. Customer services deploy systems like Google Duplex to understand context and schedule appointments. These pairings illustrate how artificial intelligence technologies are being integrated into diverse industrial and social sectors to automate and enhance tasks.

44. (B) Only II
Discriminative classifiers, such as Support Vector Machines, are generally considered more accurate than model-based classifiers like naive Bayes for practical datasets. Training a classifier requires a labeled dataset to learn the boundaries between predefined classes. Therefore, the assertion that training a classifier involves moving forward without settling on any predefined class is incorrect in the context of supervised learning.

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(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2011

6. Consider the following statements regarding the use of big data in Financial Services:
I. Big data enables businesses to gain a competitive advantage by capturing new market opportunities and reducing fraud.
II. Financial services companies utilise big data to recognise patterns that point to fraudulent activity amidst ever-changing threat landscapes.
III. Big data hinders drive innovation by obscuring the interdependencies between persons, institutions, and entities.
IV. Big data analytics assist businesses in recognising possible instances of fraud related to anti-money laundering regulations.
V. Financial institutions use big data analytics to comply with regulations such as the Dodd-Frank Act and Basel III.
Which combination of statements is correct?
(A) I, II, IV, and V
(B) I, II, III, and V
(C) II, III, IV, and V
(D) I, III, IV, and V

Oct/Nov 2006

7. Arrange the stages of the forecasting process in their correct sequential order:
1. Formulating projections for the company's ongoing business activities
2. Taking a look back at the steps
3. Establishing a foundation for future projections
4. Making adjustments to the forecast
(A) 3, 1, 4, 2
(B) 1, 3, 2, 4
(C) 3, 4, 1, 2
(D) 1, 4, 3, 2

May/June 2014

8. Match the industry in List-I with its corresponding application of data mining in List-II.
List I: (Industry)
P. Retail
Q. Financial services
R. Manufacturing
S. Entertainment
List II: (Application of Data Mining)
1. Determining viewing and listening preferences to provide personalised suggestions.
2. Validating loan and credit applications and constructing risk models.
3. Enhancing uptime and operational efficiency in production plants.
4. Driving recommendation engines for potential purchases based on clickstreams.
(A) P-2, Q-4, R-1, S-3
(B) P-4, Q-3, R-2, S-1
(C) P-4, Q-2, R-3, S-1
(D) P-3, Q-1, R-4, S-2

Oct/Nov 2019

9. In which year was the First International Conference on Knowledge Discovery and Data Mining held in Montreal?
(A) 1989
(B) 1995
(C) 1997
(D) 1999

May/June 2022

10. Which of the following statements incorrectly characterises the current intertwining of web and mobile analytics?
(A) Users now anticipate that a mobile application will be available to enhance their purchasing experience alongside desktops.
(B) A user might prefer to browse on a desktop computer at home but complete the transaction on their tablet.
(C) Having dedicated web and mobile analytics running in isolation is sufficient for accurate tracking.
(D) It is necessary to have a solution that is able to track a user across multiple platforms focusing on a customized approach.

Oct/Nov 2008

11. Match the Big Data tools in List-I with their functions in List-II.
List I: (Tool)
P. Hadoop
Q. MapReduce
R. YARN
S. Spark

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data scientists to run experiments quickly and reliably without platform-specific restrictions.

54. (B) K-nearest neighbour legacy hardware systems
The AI Hub is a digital repository for sharing machine learning resources such as Jupyter notebooks, TensorFlow modules, and pipelines. It is designed to facilitate the reuse and collaboration of software-based AI components. It does not provide or manage legacy hardware systems like K-nearest neighbour physical equipment, as its focus is on cloud-based and software machine learning content.

55. (C) P-2, Q-3, R-4, S-1
Bayesian networks are general tools for reasoning and perception. Decision trees are symbolic algorithms that are easily understood. Support Vector Machines are discriminative classifiers that significantly influenced the field. Means-ends analysis is a planning algorithm that searches through goals and sub-goals. These tools represent various approaches within AI for solving classification, planning, and reasoning problems.

56. (A) I, II, and III
The AI Hub and Kubeflow Pipeline System are associated with Jupyter notebooks, TensorFlow modules, and reusable end-to-end machine learning workflows. These platforms are specifically designed to avoid rigid lock-in requirements, allowing for deployment across various cloud and on-premises environments. Therefore, the assertion that they require lock-in restricting deployment to a single private server is incorrect.

57. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Chatbots offer a high return on investment in the banking industry by automating high-volume, routine tasks. By handling balance checks and fund transfers, they alleviate the pressure on human customer service representatives in call centers. This efficiency leads to reduced operational costs and faster response times, making the Reason a correct and direct explanation for the Assertion.

58. (B) Compliant motion
Compliant motion refers to a robot's ability to move while maintaining constant physical contact with an object. In a logistics setting, this is essential for tasks like sliding a package along a conveyor belt or assembling parts where touch is required. This type of movement requires sensors to regulate force and position, ensuring the object is handled securely.

59. (B) The replication of human intelligence in computers trained to emulate human thinking
Artificial intelligence fundamentally refers to the simulation or replication of human intelligence processes by computer systems. This involves training machines to perform tasks that typically require human cognition, such as learning, reasoning, and problem-solving. While it uses advanced software and can be implemented in robotics, its core goal is emulating human thinking and decision-making through algorithmic models.

60. (B) 1956
The term "artificial intelligence" was first coined by John McCarthy in 1956. This occurred during the Dartmouth Conference, which is widely considered the foundational event that established AI as a distinct academic discipline. McCarthy and other pioneers gathered to explore the possibility of creating machines that could simulate aspects of human intelligence and reasoning.

61. (D) Chatbots offer low ROI because they struggle with routine tasks like checking balances.
Chatbots in banking actually offer a high return on investment because they excel at routine tasks like checking balances and fund transfers. Far from struggling, these systems are highly efficient at managing simple, frequent inquiries, which allows banks to redirect human resources to more complex customer needs. This automation improves customer service efficiency and reduces overall operational costs.

62. (A) P-4, Q-2, R-1, S-3
Chatbots handle routine tasks like balance checks, while Robo Advice evaluates data for investment recommendations. Predictive Analytics identifies sales prospects by recognizing patterns in historical data. Cybersecurity uses information

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information. Automated reasoning uses this stored data to answer questions or generate outputs. Machine Learning enables the system to adapt its functions by identifying and utilizing new patterns. Together, these functions form the core capabilities required for a machine to exhibit artificial intelligence.

99. (A) I, II, and IV
AI in banking is used for fraud detection, making investment recommendations through robo-advisors, and enhancing cybersecurity by learning from previous threats. However, predictive analytics is highly capable of identifying unmet sales prospects based on patterns in historical data. The claim that it cannot identify such prospects and only records past transactions is factually incorrect.

100. (D) Assertion (A) is false, but Reason (R) is true.
The assertion that discriminative classifiers are generally less accurate than model-based ones is false; in practice, discriminative models like SVM often perform better. However, the reason is correct in stating that model-based classifiers like naive Bayes rely heavily on how well the assumed model matches the actual data. While the assertion is incorrect, the reasoning describes a valid characteristic of model-based algorithms.

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email is spam or not. Regression is used to predict continuous numerical values, such as how much a specific output will change based on shifts in input variables.

72. (D) Combinatorial logic
Artificial intelligence uses various logic extensions like situation calculus for events, belief calculus for belief revision, and fluent calculus for time. Combinatorial logic is a formal system in mathematical logic and theoretical computer science, but it was not listed among the specific logic extensions designed to handle particular spheres of expertise in the provided material.

73. (A) Decision tree — A symbolic machine learning algorithm that is easily understood
Decision trees are symbolic machine learning algorithms that are popular because they are easy to understand and interpret. Naive Bayes remains common, but it did not replace Support Vector Machines in the 1990s in that specific context. K-nearest neighbour is useful but often less scalable than more modern discriminative classifiers which do not require exact mathematical matches.

74. (D) I, II, III, and IV
For a computer to demonstrate artificial intelligence, it must perform several core functions. These include processing natural language for communication, representing knowledge for storage, using automated reasoning to solve problems, and employing machine learning to adapt based on new data. All these components are essential for creating systems that emulate human-like thinking and behavioral patterns.

75. (B) Chatbot
Bank Alpha's implementation of an AI system to handle routine inquiries like balance checks and mini statements is a classic example of a chatbot. These systems are designed to automate high-volume customer service tasks, providing instant responses and reducing the load on human staff. This leads to improved efficiency and a high return on investment for the institution.

76. (A) Motion planning
Motion planning is the technical process used to break down complex robotic tasks into simple, discrete components like individual joint or actuator movements. By calculating these specific maneuvers, the logistics firm ensures that its robotic arms can navigate to the correct positions and handle items accurately. This is a fundamental requirement for successful automation in manufacturing and warehousing.

77. (B) Less than 15%
When RankBrain was first introduced in 2015, Google reported that the algorithm was being utilized for less than 15% of its total search queries. Despite this initially small percentage, it quickly became a critical part of the ranking process, especially for handling unique or never-before-seen queries that required sophisticated linguistic interpretation through word vector mapping.

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78. (C) The k-nearest neighbour algorithm was the most popular ML algorithm well into the 2010s.
The statement that the k-nearest neighbour algorithm was the most popular machine learning algorithm well into the 2010s is incorrect. While it was widely used, other models like Support Vector Machines and eventually deep neural networks became more dominant. Support Vector Machines, in particular, were often preferred for their accuracy and ability to handle high-dimensional data in practical applications.

79. (A) P-3, Q-1, R-4, S-2
Propositional logic uses truth functions like "not," while first-order logic incorporates quantifiers and predicates. Fuzzy logic assigns a degree of truth between zero and one to handle imprecise statements. Paraconsistent logic is designed to simulate contradictory or inconsistent assertions, which is particularly useful in complex multi-agent systems where information may be conflicting or incomplete.

80. (D) I, II, and III
The future of artificial intelligence includes the widespread use of autonomous vehicles for transportation and robots working alongside humans in manufacturing. Additionally, customer service systems will advance beyond simple word recognition to understand context and nuance. These developments signify a shift towards more integrated and sophisticated AI

from previous threats to forecast and prevent future attacks. These applications demonstrate the breadth of AI's role in modernizing financial services and improving operational security.

63. (D) I, II, and III
Different schools of thought exist regarding the morality and necessity of AI. Some argue against creating independent thinking machines, while others believe human advancement depends on them. A third group, representing a portion of the general public, remains indifferent to these philosophical debates. All these perspectives contribute to the ongoing discourse surrounding the ethical development of artificial intelligence.

64. (D) Assertion (A) is false, but Reason (R) is true.
Early AI algorithms that used step-by-step deductive reasoning were not highly effective for large-scale problems. They were hindered by "combinatorial explosions," where the number of possibilities grew too large to process, causing the systems to slow down exponentially. While the assertion of their effectiveness is false, the reason describing the combinatorial explosion is a factually correct explanation.

65. (D) Predictive Analytics
MegaMart uses predictive analytics to analyze historical operational data and identify hidden patterns. This technology enables the system to forecast future customer behavior, uncover unmet sales prospects, and suggest cross-selling opportunities. By leveraging statistical algorithms and machine learning, predictive analytics transforms raw data into actionable insights that help retail businesses increase revenue and optimize customer engagement.

66. (A) They combine various AI methodologies like fuzzy expert, neuro-fuzzy, and genetic systems.
Hybrid Information Systems integrate multiple artificial intelligence methodologies to leverage the strengths of each. Examples include neuro-fuzzy systems, which combine the learning capabilities of neural networks with the human-like reasoning of fuzzy logic. These systems are designed to handle complex problems more effectively than a single AI approach, providing robust solutions in fields like finance and engineering.

67. (A) It acts as a tutor that guides students when they make incorrect assumptions.
Educators and cognitive scientists advocate for Intelligent Computer Assisted Instruction because it serves as a virtual tutor. The system monitors a student's progress and intervenes when it detects incorrect assumptions or slips in logic. This personalized guidance helps students understand their mistakes in real-time, enhancing the learning experience and fostering a deeper understanding of the subject matter.

68. (A) Only I
Hybrid Information Systems successfully combine different paradigms, such as neuro-fuzzy and genetic-fuzzy systems, to solve complex problems. In the field of finance, these systems are used for far more than just ATM mechanics; they are applied to sophisticated tasks like risk assessment, portfolio management, and fraud detection. Therefore, the second statement's claim of exclusive use is incorrect.

69. (B) I, II, IV, and V
Robotics involves localization, motion planning, and the safety benefits of working in hazardous environments. It is also acknowledged that certain creative jobs are currently better suited for humans. However, the statement about compliant motion is incorrect; compliant motion requires maintaining constant physical touch with objects, rather than breaking touch continually during the movement process.

70. (B) Google Duplex
OmniServices is likely using Google Duplex, an AI technology designed to handle real-world tasks over the phone. It features a natural-sounding AI voice that can understand complex human speech and respond appropriately. By adding human-like filler words such as "ums" and pauses, Duplex makes interactions feel more natural while autonomously scheduling appointments for the user.

71. (C) Classification places items into categories, while regression predicts continuous output changes.
The fundamental difference between classification and regression lies in the nature of their outputs. Classification is used to place items into discrete categories, such as identifying if an

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"fast," which is critical for expert systems and automated control.

90. (B) The skills learned to solve one problem being utilized to solve a different challenge.
Transfer learning is a machine learning technique where the knowledge and skills acquired while solving one problem are applied to a different but related challenge. This approach is highly efficient as it allows models to leverage previous training, reducing the amount of data and time required to learn new tasks. It is a key concept in modern artificial intelligence development.

91. (B) Default logics — Syntactic sentence formations in linguistics
Default logics are not focused on syntactic sentence formations in linguistics; rather, they are designed to handle reasoning where certain conclusions are assumed to be true unless there is evidence to the contrary. Syntactic structures are usually addressed through generative grammars or specialized linguistic models. The other pairings, such as fluent calculus for time and paraconsistent logic for contradictions, are correct.

92. (D) I, II, III, IV, and V
Modern financial institutions utilize artificial intelligence across several critical functions. These include protecting systems through cybersecurity, engaging customers with chatbots, making automated loan and credit decisions, and tracking market trends. Additionally, predictive analytics is used to uncover sales opportunities. Each of these applications represents a fundamental way AI is integrated into the banking and finance sector today.

93. (C) AI Hub
TechCorp is utilizing Google's AI Hub, which acts as a centralized portal for managing and sharing machine learning content. It provides a secure environment for data scientists to upload and access plug-and-play assets like Jupyter notebooks and TensorFlow modules. By using this hub, organizations can foster collaboration and ensure that high-quality ML content is easily accessible across the enterprise.

94. (D) Naive Bayes
Naive Bayes is a classic model-based classifier algorithm that is widely used due to its scalability and simplicity. While discriminative models like Support Vector Machines are often more accurate on practical datasets, naive Bayes remains popular for tasks such as threat classification and spam filtering. It operates by making probabilistic assumptions about the independence of features within the data.

95. (A) Emulating thinking to increase self-assurance
The primary benefit for a student using an Intelligent Computer Assisted Instruction system is the increase in self-assurance and confidence. By providing a personalized virtual tutor that emulates human-like guidance and provides immediate feedback, the system helps students overcome difficulties in their problem-solving process. This supportive environment encourages learners to tackle complex tasks with greater certainty and understanding.

96. (A) B. F. Skinner
B. F. Skinner was the author of the 1957 book "Verbal Behaviour." In this work, he proposed a behaviorist approach to language, suggesting that linguistic skills are acquired through stimulus-response mechanisms and reinforcement. His theories were later famously challenged by Noam Chomsky, sparking a significant shift in the fields of linguistics and cognitive science towards more complex structural models.

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97. (D) It introduces a rigid lock-in mechanism that restricts prototyping strictly to single-cloud environments.
Kubeflow Pipelines are designed to be portable and flexible, explicitly avoiding rigid lock-in mechanisms. They allow data scientists to compose and deploy reusable workflows that can be run on various platforms, including different clouds and on-premises servers. The system focuses on container-centric processes to ensure that experiments can be conducted quickly and reliably without being restricted to a single environment.

98. (B) P-4, Q-2, R-1, S-3
Natural language processing allows computers to communicate effectively, while Knowledge Representation stores and formalizes

applications across many different sectors of the global economy.

81. (D) Assertion (A) is false, but Reason (R) is true.
Bayesian networks are not used exclusively for natural language processing; they are general-purpose tools for reasoning, learning, and perception under uncertainty. However, the reason is correct in stating that they can be developed into dynamic versions to solve probabilistic problems. While the assertion about their exclusive use is false, the reason accurately describes their broader functionality.

82. (C) Classifier
In machine learning, a classifier is a function or algorithm used to determine the closest match between an input pattern and a set of predefined categories. By comparing new data points to learned patterns, the classifier can assign items to specific classes. This is a fundamental tool for tasks like customer segmentation, fraud detection, and image recognition within various industries.

83. (D) They are rules of thumb that rank options to achieve a goal in a shorter amount of time.
Heuristics are essentially "rules of thumb" used in artificial intelligence to prioritize certain options over others. They allow algorithms to prune search trees by removing paths that are unlikely to lead to a goal, thereby saving significant computational time. This approach is vital for solving complex problems where an exhaustive search for every possible solution would be practically impossible.

84. (A) III, I, II, IV
The water clock with a regulator by Ktesibios (250 B.C.) is the earliest system, followed by Cornelis Drebbel's thermostat in the seventeenth century. James Watt's steam engine governor was developed in the eighteenth century. The formal mathematical theory behind reliable feedback systems emerged later, in the nineteenth century. This sequence shows the long historical development of automated control.

85. (C) Both I and II
Noam Chomsky critiqued behaviorism by arguing it failed to explain the creative nature of language, as humans can produce and understand novel sentences. His theory of syntactic structures also shared conceptual links with ancient linguistic models, such as those found in Sanskrit grammar. Both statements correctly reflect Chomsky's significant contributions to modern linguistics and the development of natural language processing.

86. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The "AI effect" explains why successful artificial intelligence applications are often no longer labeled as AI once they become ubiquitous. As a technology becomes a standard part of general infrastructure, people stop viewing it as "intelligent" and start seeing it as a routine computational tool. This phenomenon directly causes the field of AI to receive less credit for its widespread successes.

87. (A) Neural Networks
Neural networks are the core methodology used for modern credit scoring in cases with non-linear input variables and no predefined statistical model. They consist of nodes and hidden layers that learn organically from data. This structure allows the system to identify complex patterns and relationships in thin credit files, making it superior to traditional linear models for assessing creditworthiness.

88. (D) A type of movement that involves moving while retaining physical touch with an object
Compliant motion is a specific type of robotic movement where the machine maintains physical contact with an object while moving it. This is essential for tasks that require tactile feedback, such as sliding a component or scrubbing a surface. Unlike motion planning, which calculates paths to avoid obstacles, compliant motion focuses on the interaction between the robot and the object.

89. (A) It provides a degree of truth that ranges anywhere from 0 to 1.
Fuzzy logic addresses linguistic imprecision by moving away from binary true/false values. Instead, it assigns a "degree of truth" that can be any value ranging from zero to one. This allows the system to represent and process concepts that are not clearly defined, such as "warm" or

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CHAPTER 23
Business Analytics as Management Tool

Oct/Nov 2015

1. Read the following scenario and answer the question that follows:
A brick-and-mortar clothing retailer begins tracking customer geolocations and interactions on its mobile app while the customers are physically browsing the aisles. The retailer uses this data to send immediate, personalised discount notifications to the shoppers' devices. Which specific application of big data in retail is this?
(A) Product development
(B) The in-store shopping experience
(C) Supply chain production optimization
(D) Genomic research

May/June 2020

2. How does the polling period (voting time period) directly influence the output of a spatial aggregate?
(A) Dictating the structural framework of the relational database used for storing the resulting aggregate.
(B) Converting the unstructured spatial data into semantic categories using various NLP subtasks.
(C) Defining the time interval over which resources are sampled for data collection.
(D) Determining the geographical boundaries from which spatial data can be exclusively extracted for reporting.

Oct/Nov 2012

3. Which of the following data mining techniques is correctly paired with its corresponding example or methodology?
(A) Classification — Utilizing K-means clustering to group data points based on their spatial proximity.
(B) Classification — Using Naive Bayes classifiers and k-nearest neighbor algorithms.
(C) Regression — Applying support and confidence measurements to determine the strength of association rules.
(D) Clustering — Implementing deep learning algorithms to predict the probability of future categorical events.

May/June 2008

4. Read the following scenario and answer the question that follows:
A bank deploys a predictive model to alert tellers of cross-selling opportunities when customers walk in. However, the tellers ignore the system because they were never consulted during its development, nor were they informed how the insights align with their branch performance targets. To rectify this and ensure successful adoption, what must the organisation enforce?
(A) Rely purely on qualitative forecasting methods instead of using any automated predictive models for cross-selling.
(B) Involve end-users in adoption, giving them a stake in the model alongside change management.
(C) Eliminate the IT department's engagement in the analytics process entirely to speed up frontline adoption.
(D) Replace all structured customer data with unstructured social media sentiment logs to better understand behavior.

Oct/Nov 2024

5. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:
Assertion (A): IP addresses on their own are not sufficient to identify all mobile network providers or nations accurately.
Reason (R): Some mobile network operators share their mobile networks with virtual network operators (MVNO), and may share internet gateways across the borders of various nations.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

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45. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
RankBrain is particularly effective at handling unfamiliar search queries that the system has never encountered. It achieves this by mapping the query into word vectors to find words or clusters with the highest linguistic similarity. This allows the algorithm to speculate on the intent of the search, providing relevant results even for unique or ambiguously phrased keywords.

46. (C) Non-linearities or interactions between predictors
In credit scoring, neural networks eliminate the need for analysts to manually specify non-linear relationships or complex interactions between variables. The network's layers of nodes automatically detect these patterns from the raw data. This is a significant advantage over traditional statistical methods, which require rigorous manual modeling of interactions to achieve high predictive accuracy in financial risk assessment.

47. (C) As a measurement of how valuable something is to an intelligent agent
In the context of an intelligent agent, utility is a formal measurement of the value or desirability associated with a particular state or outcome. It quantifies how "good" a specific result is from the agent's perspective. By maximizing expected utility, an agent can make rational decisions that align with its goals, especially when operating under conditions of uncertainty.

48. (B) It handles unfamiliar words by speculating on meanings and filtering search results.
Google RankBrain is an AI system that processes search queries, particularly those that are unique or unfamiliar. It handles these cases by speculating on the meanings of words using linguistic similarity and word vectors to filter results. It was not introduced in 2018, nor does it rely solely on first-order logic; instead, it uses sophisticated machine learning models.

49. (C) Enhancing safety by removing humans from hazardous or unhealthy environments.
One of the most significant benefits of robotics is the improvement of safety by deploying machines in environments that are hazardous, unhealthy, or dangerous for humans. Robots can perform tasks involving toxic substances, extreme temperatures, or structural instability. This protects human workers from physical harm while maintaining productivity in industrial, disaster recovery, or deep-sea exploration scenarios.

50. (A) Norbert Wiener — Wrote "Syntactic Structures"
The pairing of Norbert Wiener with the book "Syntactic Structures" is incorrect. Norbert Wiener is the author of "Cybernetics," published in 1948. "Syntactic Structures" was written by Noam Chomsky in 1957. Chomsky's work revolutionized linguistics, while Wiener's book established the field of cybernetics, focusing on control and communication in animal and machine systems.

51. (D) I, II, III, IV, and V
AI history includes Turing's imitation game, the Dartmouth Conference, and the observation that AI often blends into general infrastructure. Modern tools like Kubeflow Pipelines manage ML workflows through containers. Early feedback systems, like Drebbel's thermostat, are historical precursors to self-regulating AI. All these points correctly summarize key developmental milestones and operational features within the field of artificial intelligence.

52. (D) Kubeflow Pipeline System
The Kubeflow Pipeline System is a container-centric platform used to compose, deploy, and manage reusable machine learning workflows. It allows data scientists to build end-to-end processes that are portable and scalable across different environments. By utilizing containers, it ensures that workflows can be executed without being tied to a specific cloud vendor, providing flexibility and efficiency.

53. (D) It orchestrates machine learning workflows using containers in a specified graph.
The core conceptual function of Kubeflow Pipelines is to orchestrate complex machine learning workflows. It uses a graph-based structure where each component is packaged in a container. This enables the composition, deployment, and management of end-to-end ML processes. This system provides a workbench for

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List II: (Function)

1. Open-source cluster computing framework that provides an interface for programming complete clusters by utilising implicit data parallelism.
2. An open-source system that stores and analyses large datasets on clusters of commodity hardware without charge.
3. Component that distributes data to different nodes using filters, then organises and condenses the results.
4. Component responsible for job scheduling and resource management in the cluster.

(A) P-3, Q-2, R-1, S-4
(B) P-2, Q-3, R-4, S-1
(C) P-4, Q-1, R-2, S-3
(D) P-2, Q-4, R-3, S-1

May/June 2013

12. Which of the following is NOT listed as one of the necessary Excel skills that need to be kept up to date for proficiency?
(A) Workbooks
(B) Macros and Automatization
(C) Image Tagging and Beacons
(D) Data Validation

Oct/Nov 2017

13. Which of the following is typically included as an input in structured data formats?
(A) Common identifier fields such as names, addresses, and phone numbers.
(B) Multimedia file formats including high-definition video and uncompressed audio recordings.
(C) Unstructured customer product reviews gathered from various social media platforms.
(D) Semi-structured files such as Extensible Markup Language (XML) documents used for data exchange.

May/June 2019

14. Sales and marketing teams frequently employ statistical models derived from machine learning to forecast the opinions of specific clients based on social media data. Which type of analytics does this scenario primarily illustrate?
(A) Descriptive analytics
(B) Diagnostic analytics
(C) Prescriptive analytics
(D) Predictive analytics

Oct/Nov 2010

15. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:
Assertion (A): Business analytics require the engagement of IT and executive ownership to be genuinely successful.
Reason (R): An agile strategy and the deployment of predictive models demand the appropriate technological infrastructure, tools, and collaboration between business and information technology teams.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2025

16. What is the primary aim of the W3C Mobile Web Initiative?
(A) Preventing desktop websites from scaling down to mobile screen resolutions to ensure a distinct user experience.
(B) Mandating the use of XML over HTML5 for all commercial applications globally to ensure data consistency.
(C) Helping websites support mobile surfing by identifying best practices for mobile optimization.
(D) Tracking the physical GPS locations of all telecommunication network operators for regulatory compliance purposes.

Oct/Nov 2014

17. Read the following scenario and answer the question that follows:
A global logistics company uses sensors to collect massive amounts of transactional data and logs from its warehouse down to the final delivery destination. Management reviews this data to identify route delays and save fuel costs. Which specific use of big data analytics does this action illustrate?
(A) Improving the efficiency of the supply chain
(B) Genomic research
(C) Drive innovation in anti-money laundering
(D) Telecom customer churn

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what has happened in the past and what is anticipated in the future.

Oct/Nov 2017

54. Which of the following most appropriately describes how data mining helps drive down costs within a corporation?

(A) Focusing on marketing campaigns regardless of the underlying supply chain issues or logistical constraints.

(B) Isolating customer support from data flow to minimize real-time interaction costs and personnel requirements.

(C) Outsourcing all human resources functions to external predictive maintenance tools and automated screening systems.

(D) Improving operational efficiencies and cutting down on unnecessary spending or process redundancy.

May/June 2019

55. What does business analytics (BA) fundamentally refer to in the context of commercial enterprises?

(A) The application of subjective judgments to manage operations and limit technological expenditure through manual record-keeping.

(B) The use of skills and technologies to analyze organizational data for insight and data-driven decision-making.

(C) The process of utilizing artificial intelligence to automate customer relationship tasks without requiring any human oversight.

(D) The isolated storage of organizational data in a single warehouse to comply with standard regulatory requirements and audits.

Oct/Nov 2010

56. Read the following scenario and answer the question that follows:

An app developer relies heavily on advertisements for revenue. On their web application, they notice a sharp decline in ad impressions due to users installing ad-blockers. To counter this, they shift focus to integrating advertisements directly into their mobile app. Why is this strategy generally more successful on mobile platforms compared to web platforms?

(A) Mobile makes it harder to prevent ads, unlike web applications where ad-blockers are easily installed.

(B) Mobile users typically prefer to click on every advertisement they see regardless of its relevance to them.

(C) Mobile apps do not generate any user session IDs, rendering ad-blockers technologically incompatible with the hardware.

(D) Mobile networks legally prohibit the display of advertisements unless the user is logged into an MVNO account.

May/June 2025

57. Which of the following accurately describes a characteristic of processing big data?

(A) Batch processing analyzes large data blocks over time, suitable for longer turnaround periods.

(B) Stream processing analyzes large data blocks over a long period, providing a longer turnaround time for data analysis.

(C) Processing data in streams is generally easier and typically less expensive than implementing batch processing techniques.

(D) Batch processing examines relatively small batches of data all at once to make corporate decisions more quickly.

Oct/Nov 2014

58. Which of the following data visualisation types is incorrectly paired with its description?

(A) Tables — A structured grid with rows and columns used to compare different variables and metrics side-by-side.

(B) Line graphs — Connecting data points with segments to differentiate variables by stacking them.

(C) Tree maps — Presenting hierarchical data as a set of nested forms, most often rectangles, to show proportions.

(D) Bubble charts — Representing three variables via the x-axis, the y-axis, and the relative size of the plotted bubble.

May/June 2005

59. How is text mining primarily defined in the context of business analytics?

(A) The act of aggregating purely numerical data into a spatial format for hardware mapping purposes.

(B) The procedure of converting structured relational databases into unstructured social media feeds for public viewing.

(C) Converting unstructured text into a structured format to find relevant patterns

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Oct/Nov 2025

25. Which of the following statements regarding the challenges of business analytics is incorrect?

(A) Presenting business analytics as isolated and contradictory to current strategies to ensure maximum disruption.

(B) Assuming data analytics will achieve maximum success when all parties inside the organisation support execution.

(C) Recognizing the ongoing requirement for buy-in from top leadership as well as a distinct business strategy.

(D) Integrating data generated by a large spectrum of internet-connected devices of different types into one strategy.

May/June 2007

26. Which of the following statements incorrectly characterises the current intertwining of web and mobile analytics?

(A) App installation doesn't require a sign-in, making individual user tracking completely impossible.

(B) In the past, web analytics mostly focused on metrics such as page views created by users of desktop applications.

(C) Mobile analytics clearly includes tracking the length of visits and whether or not an in-app purchase was completed.

(D) The location of the user acts as a distinctive asset and a point of differentiation in mobile analytics versus online analytics.

Oct/Nov 2018

27. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:

Assertion (A): Businesses providing financial services are under increased pressure due to anti-money laundering rules.

Reason (R): Big data analytics enables financial institutions to automatically bypass regulatory reporting requirements without filing reports of suspicious conduct.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

May/June 2021

28. What does data visualisation fundamentally refer to?

(A) The physical inspection of data warehouse hardware components using visual optical instruments and diagnostic tools.

(B) Converting visual media files into text-based structured data using deep learning and image recognition software.

(C) Representing data through graphics like charts and plots to simplify the communication of complex relationships.

(D) The practice of predicting financial market trends using purely auditory data points and sound-based indicators.

Oct/Nov 2013

29. Consider the following statements regarding the arrangement of text data within databases:

I. Structured data has been standardised into a tabular format, consisting of several rows and columns.

II. Unstructured data adheres strictly to relational database formats but lacks specific metadata tags.

III. Semi-structured data includes files written in XML, JSON, and HTML.

Which combination of statements is correct?

(A) I and II

(B) I and III

(C) II and III

(D) I, II, and III

May/June 2024

30. Consider the following statements regarding the origins of data mining:

I. The Association for the Advancement of Artificial Intelligence (AAAI) was responsible for sponsoring the Knowledge Discovery and Data Mining conference on an annual basis for the subsequent three years after its inception.

II. The first issue of a specialised journal called Data Mining and Knowledge Discovery was released to the public in 1999.

Which of the above statement(s) is/are correct?

(A) Only I

(B) Only II

(C) Both I and II

(D) Neither I nor II

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(D) Identifying appropriate tools and platforms that are compatible with already developed software ecosystems and hardware.

May/June 2006

42. Big data sets might range in size spanning from terabytes to which of the following magnitudes?
(A) Gigabytes
(B) Megabytes
(C) Petabytes
(D) Zettabytes

May/June 2020

43. Consider the following statements regarding Natural Language Processing (NLP) subtasks:
I. Summarization condenses lengthy passages into a concise synopsis.
II. Text categorization is responsible for classifying text documents based on predefined topics or categories.
III. Sentiment analysis identifies positive or negative sentiment exclusively from internal data sources, ignoring external sources.
IV. Named-entity recognition seeks to locate and classify particular entities in text, such as names or locations.
Which combination of statements is correct?
(A) I, II, and IV
(B) II, III, and IV
(C) I, III, and IV
(D) I, II, and III

Oct/Nov 2015

44. Consider the following statements regarding the elements of business analytics:
I. Data mining involves searching through big data sets to find patterns and relationships.
II. Text mining converts unstructured text into a structured format to find relevant patterns.
III. Data aggregation collects raw data and presents it in a summary format for statistical analysis.
IV. Forecasting completely eliminates the impact of the unpredictability of the future by relying solely on qualitative techniques.
Which combination of statements is correct?
(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, and IV

May/June 2008

45. Read the following scenario and answer the question that follows:
A business analyst receives a massive dataset detailing quarterly sales drop-offs. Instead of merely presenting the data as a chart to management, the analyst investigates the underlying implications of the numbers to recognise why the data is helpful for restructuring the sales approach. This specific action best exemplifies which crucial business analytics skill?
(A) Named-entity recognition
(B) Information retrieval
(C) Data validation
(D) Critical thinking

Oct/Nov 2024

46. Which of the following statements concerning problems with tracking via JavaScript page tagging is incorrect?
(A) The fact that most modern mobile browsers strictly block all JavaScript functions by default.
(B) It assumes that the end user's browser is capable of running JavaScript code during the page load.
(C) It assumes that JavaScript has been manually enabled on the mobile browser by the device user.
(D) It alerts a server that is not associated with the page when the content is rendered by a browser.

May/June 2011

47. Consider the following statements regarding the use of big data in the retail industry:
I. Product development models the relationship between important characteristics of ongoing offers and their commercial success.
II. Big data helps optimise customer interactions and decrease customer turnover by analysing social media platforms and website visits.
III. Understanding customer lifetime value using big data helps determine which customers are the most valuable to the business.
IV. Pricing analytics and optimization ignores the true profitability of the client base, focusing purely on gross revenue volume.
Which combination of statements is correct?

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the algorithms have enough volume to process.

Which combination of statements is correct?

(A) I and II
(B) I and III
(C) II and III
(D) I, II, and III

Oct/Nov 2009

37. Match the types of data visualisation in List-I with their corresponding description in List-II.

List I: (Visualisation Type)

P. Pie charts
Q. Histograms
R. Scatter plots
S. Heat maps

List II: (Description)

1. Useful for revealing the link between two variables within the analysis of regression data.
2. Broken up into portions that each reflect a different component of the total.
3. Handy graphical representations that allow for the visualisation of behavioural data according to location.
4. Depicts a distribution of numbers using a bar chart with no spaces between the bars.

(A) P-4, Q-2, R-3, S-1
(B) P-2, Q-1, R-4, S-3
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-4, R-1, S-3

May/June 2015

38. Read the following scenario and answer the question that follows:

A large insurance firm receives thousands of policy applications weekly. The underwriting team deploys a sophisticated analytical model that assesses the historical risk profiles of similar applicants to decide whether to approve or deny the new policies. This scenario exemplifies the application of data mining in which core operational area?

(A) Risk modelling and management for prospective clients
(B) Improving operational efficiencies in production plants
(C) Predictive maintenance for supply chain logistics
(D) Validating credit card transaction safety

Oct/Nov 2022

39. Which of the following is a correct description of descriptive analytics?

(A) Applying statistics derived from machine learning to estimate future outcomes and potential market shifts for new products.
(B) Focusing on previous performance to uncover the reasons behind particular occurrences using drill-down methods and root-cause analysis.
(C) Interpreting historical data and KPIs to discover trends and patterns through methods like data aggregation.
(D) Making recommendations for how similar situations should be managed in the future using neural networks and automated logic.

May/June 2012

40. Read the following scenario and answer the question that follows:

A meal kit delivery company analyses historical customer data to determine the frequency of particular orders and assesses seasonal purchasing patterns. By deploying predictive analytics, they accurately anticipate upcoming order volumes. What is the immediate operational advantage this company gains from this specific analytical approach?

(A) Completely replacing the existing executive board with machine learning algorithms and automated decision models.
(B) Avoiding food spoilage and ensuring orders are fulfilled accurately and sent on time.
(C) Shutting down all mobile applications entirely to focus solely on parsing WAP gateway logs for user data.
(D) Preventing the installation of third-party ad-blockers on their customers' desktop browsers and local laptops.

Oct/Nov 2007

41. Which of the following is NOT mentioned as one of the challenges of Big Data?

(A) Making big data accessible to individuals within the organization who possess varying degrees of technical expertise.
(B) Maintaining data quality by checking for mistakes and inconsistencies across diverse unstructured data sources.
(C) Ensuring complete elimination of all competitive markets through monopolistic data scaling.

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May/June 2005

18. Which of the following is NOT an example of a common information extraction sub-task?
(A) Spatial aggregation
(B) Feature Selection
(C) Feature Extraction
(D) Named-entity recognition

Oct/Nov 2023

19. Which of the following statements regarding Knowledge Discovery in Databases (KDD) and data mining is incorrect?
(A) Considering data mining as one of the fundamental disciplines that constitute the broader field of modern data science.
(B) Assuming that KDD and data mining are identical concepts with no distinct technical differences.
(C) Viewing data mining as a specific, granular step within the overall knowledge discovery in databases (KDD) process.
(D) Defining KDD as a comprehensive data science approach for obtaining, processing, and analyzing various data types.

May/June 2016

20. Read the following scenario and answer the question that follows:
A new business analyst constantly asks questions about how different departmental workflows relate to one another and how they have developed over time before writing any analytical models. This persistent drive to understand the inner workings of the business environment highlights which core skill?
(A) Visual discovery
(B) Spatial aggregation
(C) Curiosity
(D) Deep learning

Oct/Nov 2020

21. Which of the following is NOT an option for collecting data for mobile web analytics?
(A) YARN Negotiator Parsing
(B) Packet Sniffing
(C) Link Redirection
(D) HTTP Header Analysis

May/June 2009

22. Match the healthcare applications of big data in List-I with their corresponding outcomes in List-II.
List I: (Application)
P. Genomic research
Q. Patient experience and outcomes
R. Claims fraud
S. Healthcare billing analytics
List II: (Outcome)
1. Improving the quality of care provided to patients in a time- and money-effective manner.
2. Identifying missed revenue opportunities and spots where payment cash flows can be improved.
3. Helping patients pinpoint potential health problems they may encounter in the future.
4. Highlighting particular behaviours across hundreds of reports to discover potentially fraudulent activity.
(A) P-1, Q-3, R-2, S-4
(B) P-4, Q-2, R-1, S-3
(C) P-3, Q-4, R-1, S-2
(D) P-3, Q-1, R-4, S-2

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Oct/Nov 2011

23. Read the following scenario and answer the question that follows:
A network administrator is calculating the average data usage of a group of routers over a ten-minute granularity period. The data view aggregates points perfectly if the polling time is set to 10 minutes. However, the administrator alters the polling time to 5 minutes. What will be the direct consequence on the aggregated result?
(A) The result will only reflect the average of data points acquired during the first 5 minutes of the session.
(B) The system will generate a diagnostic error message due to a mismatch between the polling time and granularity.
(C) The routers will cease all data generation until the polling period is manually reset to exceed the granularity.
(D) The result will represent the average of all data points gathered during both polling sessions.

May/June 2018

24. Which of the following is incorrectly paired regarding data mining techniques?
(A) Regression - Multivariate regression
(B) Sequence and path analysis - Linear regression
(C) Clustering - Gaussian mixture models
(D) Association rules - If-then statements

(A) I, II, and III
(B) II, III, and IV
(C) I, III, and IV
(D) I, II, and IV

Oct/Nov 2006

48. In the context of time intervals for data collection, what is the defined range of granularity?
(A) From one second to one decade
(B) From one minute to one month
(C) From one hour to one year
(D) From one day to one century

May/June 2014

49. Match the data mining techniques in List-I with their correct description in List-II.
List I: (Data Mining Techniques)
P. Association rules
Q. Clustering
R. Sequence and path analysis
S. Neural networks
List II: (Description)
1. Grouping data elements that have certain characteristics in common.
2. Looking for patterns in which one set of events or values leads to later ones.
3. Utilising if-then statements and evaluating relationships using support and confidence.
4. Modelling the functioning of the human brain using computer programmes.
(A) P-3, Q-1, R-2, S-4
(B) P-1, Q-3, R-4, S-2
(C) P-3, Q-2, R-1, S-4
(D) P-2, Q-1, R-3, S-4

Oct/Nov 2019

50. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:
Assertion (A): If a company cannot generate enough revenue to cover its costs during the initial investment phase of a data analytics endeavour, they should immediately abandon the agile strategy.
Reason (R): Over the course of time, analytic models continue to evolve, and the accuracy of predictions continues to rise, making a high level of dedication essential even if ROI is not immediate.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

NODIA

May/June 2022

51. What is the most appropriate reason why WAP Gateway Traffic logs are valuable for mobile analytics?
(A) They inherently disable user ad-blockers across all mobile platforms to ensure maximum advertisement visibility.
(B) They convert structured data directly into prescriptive analytics using deep learning and artificial intelligence.
(C) Traffic is routed through these servers, allowing logs to yield parseable and analytical information.
(D) They allow developers to bypass app store registration requirements for video games and other commercial software.

Oct/Nov 2008

52. Read the following scenario and answer the question that follows:
A telecommunications operator notices sluggish speeds in a specific urban zone during evening hours. By running utilisation analytics on its network, the operator locates adjacent regions with surplus capacity and instantly reroutes bandwidth to the congested zone. Which telecommunications big data application does this represent?
(A) Optimize network capacity
(B) New product offerings
(C) Telecom customer churn
(D) Anti-money laundering

May/June 2013

53. Which of the following is a correct characteristic of creating a forecast?
(A) Forecasts completely ignore recent occurrences, focusing solely on novel future parameters and hypothetical scenarios.
(B) Quantitative techniques of forecasting are rarely utilized by modern firms during their planning and budgeting cycles.
(C) Forecasts exclusively involve present occurrences and do not make any predictions about future events or trends.
(D) Components of a prediction reflect both

for real-time display on digital dashboards and executive reporting modules.
(B) Manually inspecting small sample sets to derive qualitative judgments without the use of automated computational tools.
(C) Physically aggregating spatial data across diverse geographical locations to satisfy hardware storage infrastructure requirements.
(D) Searching through big data sets to find patterns and relationships that assist in resolving commercial issues.

Oct/Nov 2025

66. Read the following scenario and answer the question that follows:
While progressing through a complex analytics project aimed at reducing customer service wait times, an analyst consistently connects isolated data points to draw actionable conclusions that alleviate the company's overarching discomfort regarding poor feedback. Which essential business analytics skill is the analyst prominently displaying?
(A) The ability to construct HTML platforms
(B) The ability to solve problems
(C) Packet sniffing
(D) Text categorisation

May/June 2007

67. Consider the following statements regarding tracking mechanisms on mobile devices:
I. By default, iPhones and Android phones will accept browser cookies from web sites visited by the user.
II. The caching processes of handheld devices have no effect on the use of images for page labelling, meaning image caching never occurs on handsets.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2018

68. Why are files written in XML, JSON, and HTML classified as semi-structured data rather than structured data?
(A) Because they consist exclusively of multimedia formats like video and audio files that lack metadata.
(B) Because they are completely unorganized and possess no internal tagging or consistent formatting for analysis.
(C) Because they are standardized into strict tabular formats consisting of predefined rows and columns of text.
(D) Because they are organized to some degree but lack the strict structure of a relational database.

May/June 2021

69. Consider the following statements regarding the origins of data mining:
I. The Association for the Advancement of Artificial Intelligence (AAAI) was responsible for sponsoring the Knowledge Discovery and Data Mining conference on an annual basis for the subsequent three years after its inception.
II. The first issue of a specialised journal called Data Mining and Knowledge Discovery was released to the public in 1999.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2013

70. Micro, Small and Medium Enterprises (MSMEs) may face specific challenges when attempting to adopt Business Analytics. What is the most appropriate reason why?
(A) Being legally barred from utilizing any open-source data mining technologies such as Hadoop or Apache Spark.
(B) Transaction volumes being so massive that only zettabyte-scale cloud storage can process their daily invoices.
(C) Difficulty hiring suitable personnel due to growing demand and facing potential data storage limitations.
(D) Only possessing structured data, which cannot be analyzed by modern predictive tools or diagnostic algorithms.

May/June 2024

71. Consider the following platforms which can be utilised for mobile analytics and websites:
I. HTML/JavaScript
II. WordPress Mobile Pack
III. ColdFusion

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and insights.

(D) The practice of storing all company documents in an offline physical warehouse for long-term security and archiving.

Oct/Nov 2023

60. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:

Assertion (A): Predictive analytics utilizes algorithms such as classification and regression to estimate the likelihood of future outcomes.

Reason (R): Predictive analytics focuses on historical data to determine the probability of future trends and behaviors.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

May/June 2016

61. Read the following scenario and answer the question that follows:

The Chief Executive Officer of a corporate firm decides to drop three marketing channels out of ten currently being used, while increasing budget allocation to the remaining seven. This decision was made after examining the sources of traffic and the amount of leads produced by each channel. Which analytics-driven capability allowed the CEO to make this decision?

(A) The ability to predict equipment failure in remote offshore oil rigs using sensor data and engine temperatures.

(B) The ability to aggregate spatial data regarding the physical locations of competing firms and their suppliers.

(C) The ability to apply stemming and tokenization to the firm's internal financial spreadsheets and text documents.

(D) The ability to determine which marketing strategies are successful and which are not producing results.

Oct/Nov 2020

62. What is the most appropriate description of mobile web analytics as used in the business world?

(A) The process of gathering hardware manufacturing details of laptops used for high-end gaming and graphics design.

(B) The technique of physically restricting users from accessing a corporate website via mobile or cellular networks.

(C) The legal framework required to enforce ad-blockers on desktop computers to improve loading speeds for end users.

(D) The process of collecting data from customers who browse a website using mobile phones.

May/June 2009

63. Consider the following statements regarding the uses of Big Data Analytics:

I. It enhances customer integration by gathering structured, semi-structured, and unstructured data from various touch points to understand client actions.

II. It helps detect and prevent fraud by monitoring transactions in real time and comparing historical and transactional data.

Which of the above statement(s) is/are correct?

(A) Only I

(B) Only II

(C) Both I and II

(D) Neither I nor II

NODIA

Oct/Nov 2011

64. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:

Assertion (A): Sentiment analysis has the potential to propel businesses toward connecting with customers and improving processes.

Reason (R): Sentiment analysis monitors changes in customer attitudes over time by identifying positive or negative sentiment from data sources.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

May/June 2018

65. How is data mining most accurately defined?

(A) Exclusively collecting semi-structured data

Oct/Nov 2005

31. Consider the following statements regarding the primary reasons why business analytics is vital:

I. It boosts performance by providing a clear picture of what is working and what isn't working for the company.

II. It guarantees the absolute elimination of all market competitors within the first quarter of adoption.

III. It enables choices to be made more quickly and accurately.

IV. It inspires change and creativity by providing answers to concerns surrounding customers.

Which combination of statements is correct?

(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, and IV

May/June 2017

32. Which of the following Big Data tools and technologies is correctly paired with its description?

(A) NoSQL databases — Relational data management systems requiring a strictly fixed scheme and predefined tabular rows.
(B) Tableau — A leading platform for end-to-end data analytics and self-service visual analysis.
(C) Hadoop — A closed-source proprietary software dedicated solely to text tokenization and metadata tagging.
(D) Spark — A data visualization tool exclusively designed for tracking WAP gateway traffic logs and network headers.

Oct/Nov 2016

33. Consider the following skills associated with Excel proficiency:

I. Spreadsheets
II. Formulas
III. Data Linking
IV. Pivot Tables
V. IF Statements

Which combination represents the skills required to be considered proficient in Excel?

(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

May/June 2010

34. Read the following scenario and answer the question that follows:

A data scientist is reviewing the output of a deep learning model meant to categorise customer risk. The scientist notices a tiny discrepancy in how missing zip codes were formatted, which could drastically skew the entire region's risk assessment if left unchecked. By catching and correcting this minor yet critical flaw, the scientist is primarily exhibiting which business analytics skill?

(A) Part-of-speech tagging
(B) Image caching
(C) Spatial aggregation
(D) Attention to detail

Oct/Nov 2021

35. Read the following scenario and answer the question that follows:

A software company designs a product exclusively for traditional desktop online analytics. They attempt to deploy the exact same product unaltered to track user behaviour on a newly launched mobile puzzle game. Based on the distinctions between web and mobile analytics, what is the most likely outcome?

(A) The product will perform perfectly since web and mobile platforms handle session IDs identically across all devices.
(B) The product won't work because tracking individuals and session lengths differs between desktop and apps.
(C) The product will automatically upgrade the game's visuals to a desktop resolution using deep learning and AI.
(D) The product will successfully block all WAP gateway traffic to enhance the game's performance and network speed.

May/June 2023

36. Consider the following statements regarding the working mechanism of Big Data Analytics:

I. Data collection involves gathering structured and unstructured data from sources like cloud storage and in-store IoT sensors.

II. Raw or unstructured data can be allocated metadata and stored in a data lake if it is too diverse or complicated for a standard warehouse.

III. Data cleaning involves intentionally injecting redundant information to ensure

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IV. Ruby on Rails
V. TypePad Pro

Which combination of these platforms is explicitly mentioned in relation to mobile platforms?
(A) I, II, and III only
(B) II, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2005

72. Consider the following statements regarding the application of big data in the manufacturing industry:
I. It facilitates predictive maintenance by analysing multi-structured data like error messages and engine temperature to predict equipment failure.
II. It reduces operational effectiveness by making proactive responses to customer feedback excessively complex.
III. It supports production optimisation by analysing the movement of things through manufacturing processes to identify sectors creating delays.

Which combination of statements is correct?
(A) I and II
(B) I and III
(C) II and III
(D) I, II, and III

May/June 2017

73. What does the term "data aggregation" refer to in statistical analysis?
(A) Exclusively distributing processed data back into unstructured formats for storage in local file systems.
(B) Collecting raw data and presenting it in a summary format for analysis.
(C) Removing prefixes and suffixes from quantitative variables to prepare them for natural language processing.
(D) Predicting the remaining optimal life of manufacturing systems using sensor data and historical logs.

Oct/Nov 2016

74. Arrange the four basic steps of the data mining process in the correct chronological order:
1. The interpretation and analysis of the data
2. Data collection
3. The Data Mining Process
4. Data preparation

(A) 2, 4, 3, 1
(B) 2, 3, 4, 1
(C) 4, 2, 3, 1
(D) 4, 3, 2, 1

May/June 2010

75. Consider the following challenges associated with implementing business analytics within an organisation:
I. It might be challenging to get approval from everyone in senior management, requiring clear and measurable goals.
II. A firm dedication to the completed project must be maintained even if the return on investment is not realised right away.
III. End-users should be strictly excluded from the process of adopting business analytics to prevent top-notch change management from occurring.

Which combination of statements is correct?
(A) I and II
(B) I and III
(C) II and III
(D) I, II, and III

Oct/Nov 2021

76. Match the methods of collecting mobile web analytics data in List-I with their attributes in List-II.
List I: (Method)
P. Packet Sniffing
Q. Image Tags or Beacons
R. Link Redirection
S. HTTP Header Analysis
List II: (Attribute)
1. Provides information on fundamental aspects of the mobile phone and browser, often used with a device database like WURFL.
2. The only method that can reliably record clicks from marketing operations such as advertising and search.
3. Also referred to as tagless data capture or passive network capture, recording the entirety of the client-server conversation.
4. Coerces visual assets into functioning for analytics, with the recorded information level varying based on provider architecture.

(A) P-4, Q-3, R-1, S-2
(B) P-2, Q-1, R-4, S-3
(C) P-3, Q-1, R-2, S-4

NODIA

(D) P-3, Q-4, R-2, S-1

May/June 2023

77. Read the following scenario and answer the question that follows:
A hospital administration department integrates data from various payers to analyse immense volumes of payment activity. As a result, the hospital uncovers multiple instances where cash flow was delayed due to administrative coding errors and recovers significant lost revenue. This is an example of which big data use case?
(A) Healthcare billing analytics
(B) Predictive equipment maintenance
(C) Drive innovation
(D) Telecom customer churn

Oct/Nov 2009

78. What is the fundamental distinction between the qualitative research approach and the quantitative technique in forecasting?
(A) Qualitative forecasting uses mathematical procedures to eliminate intuition, while quantitative relies on subjective expert findings.
(B) Qualitative forecasting requires historical structured databases, while quantitative forecasting uses only unstructured rich media files.
(C) Qualitative generates subjective findings from expert judgment, while quantitative uses mathematical procedures.
(D) Qualitative forecasting is immune to all errors, while quantitative forecasting has a very high likelihood of containing inaccuracies.

May/June 2015

79. Consider the following statements regarding software and tools used for data mining:
I. Data preparation capabilities and built-in algorithms are key aspects of software designed for data mining.
II. DataMelt, Elki, and Orange are examples of free and open-source data mining technologies.
III. Alteryx, Databricks, and RapidMiner are commercial vendors offering data mining solutions.
IV. Knime manages data science applications by exclusively using closed-source commercial platforms.
V. H2O.ai and Dataiku provide free versions of their respective technologies.
Which combination of statements is correct?
(A) I, II, III, and V
(B) I, III, IV, and V
(C) II, III, IV, and V
(D) I, II, III, and IV

Oct/Nov 2022

80. Which of the following is NOT categorised as one of the primary approaches (types) to business analysis?
(A) Descriptive analytics
(B) Diagnostic analytics
(C) Extractive analytics
(D) Prescriptive analytics

May/June 2012

81. Read the following scenario and answer the question that follows:
An individual logs into a banking app on their smartphone for 3 minutes to check an account balance, then closes the app. Later that evening, the same individual browses the bank's desktop website for 45 minutes researching mortgage options. The analytics tool marks these as two distinct interaction periods with varying durations. This operational difference highlights which key analytical concept?
(A) Spatial aggregation
(B) Sessionisation
(C) Stemming and Tokenization
(D) MapReduce job scheduling

Oct/Nov 2007

82. Which of the following is a correct aspect highlighting the importance of Big Data Analytics?
(A) Increasing the expense of keeping vast amounts of data due to the reliance on external cloud-based analytics providers.
(B) Delaying corporate decisions due to the massive volume of unstructured data required for complex in-memory analytics.
(C) Enabling businesses to meet customer needs by understanding their demands and satisfaction levels.
(D) Discouraging the creation of innovative new products to avoid disrupting established legacy markets and revenue streams.

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May/June 2006

83. According to historical records, who is credited with developing the first kind of data visualisation primarily utilised to aid with navigation before the 17th century?
(A) The Egyptians
(B) The Greeks
(C) The Romans
(D) The Babylonians

Oct/Nov 2012

84. Read the following scenario and answer the question that follows:
An online bookstore tracks the navigation patterns and previous purchases of its logged-in users. Using this data, the platform automatically suggests new book releases that closely align with each user's reading history. Which specific analytics mechanism is primarily functioning in this scenario?
(A) Spatial aggregation polling
(B) Text tokenization
(C) Diagnostic analytics using descriptive aggregation
(D) Recommendation engines powered by data mining

May/June 2020

85. Which of the following statements correctly represents an essential application of Business Analytics (BA) for commercial enterprises?
(A) Centralizing marketing automation without any integration with cloud-based applications or external CRM platforms.
(B) Restricting the tracking of key performance indicators to historical reviews rather than utilizing real-time observation tools.
(C) Enforcing a single organizational strategy where descriptive analysis is the sole method applied to all business units.
(D) Finding patterns in data sets to assist in predicting future trends and consumer behaviors.

Oct/Nov 2015

86. Read the following scenario and answer the question that follows:
The manager of a fast-food business integrates a business analytics tool to monitor traffic patterns at the drive-thru window over several months. By analysing the data, the manager identifies that Fridays between 5 PM and 7 PM experience a 40% surge in orders. The manager subsequently schedules extra staff during these exact hours. What benefit of business analytics is directly demonstrated here?
(A) Predicting altering preferences in meal tastes over a decade using purely qualitative forecasting techniques.
(B) Identifying the specific sources of traffic derived from desktop advertising clicks and external search engines.
(C) Determining peak hours and when it is most beneficial to boost the level of efficiency.
(D) Deploying a semantic sentiment analysis model on customer feedback forms to identify negative brand associations.

NODIA

May/June 2008

87. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:
Assertion (A): NoSQL databases are an excellent choice for large amounts of raw data that are not structured.
Reason (R): NoSQL databases are non-relational data management systems that do not require a fixed scheme.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

88. How does big data fundamentally challenge typical relational databases?
(A) Big data is too large or complex for typical relational databases to process effectively and timely.
(B) Big data is entirely structured, making relational databases too rudimentary for processing modern information streams.
(C) Relational databases can only process data sizes up to gigabytes, strictly rejecting any larger datasets automatically.
(D) Relational databases inherently reject any data derived from artificial intelligence or the Internet of Things (IoT).

May/June 2011

89. Match the Information Retrieval and NLP techniques in List-I with their functions in List-II.

List I: (Technique)

P. Tokenization
Q. Stemming
R. Summarization
S. Part-of-speech (PoS) tagging

List II: (Function)

1. Assigning a tag to each token based on whether it is a noun, verb, or adjective.
2. Removing prefixes and suffixes from words to determine the root word.
3. Separating a lengthy piece of text into individual sentences and words.
4. Condensing lengthy passages of text into a concise and logical overview.

(A) P-3, Q-2, R-1, S-4
(B) P-3, Q-2, R-4, S-1
(C) P-2, Q-3, R-4, S-1
(D) P-4, Q-1, R-3, S-2

Oct/Nov 2006

90. Match the types of analytics in List-I with their corresponding focus in List-II.

List I: (Types of Analytics)

P. Descriptive analytics
Q. Diagnostic analytics
R. Predictive analytics
S. Prescriptive analytics

List II: (Focus)

1. Evaluating future outcomes by employing statistical models.
2. Making recommendations for how similar situations should be managed in the future.
3. Interpreting historical data to discover patterns and trends.
4. Focusing on previous performance to understand which factors drive particular trends.

(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-1, R-4, S-2
(C) P-3, Q-4, R-1, S-2
(D) P-1, Q-4, R-2, S-3

May/June 2014

91. Consider the following attributes required to be a successful business analyst:

I. Critical thinking
II. The ability to solve problems
III. Communication
IV. Curiosity
V. Attention to detail

Which combination represents the skills explicitly required for a successful business analyst?

(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2019

92. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:

Assertion (A): Visitor identification is considered one of the most difficult technological components to achieve in usable mobile web analytics.

Reason (R): JavaScript and HTTP cookies are highly unreliable on mobile devices compared to traditional desktop browsers.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2022

93. Read the following scenario and answer the question that follows:

During the production of pharmaceuticals, a manufacturer implements a system that analyses sensor data in real-time. The system successfully flags a component that is functional but slightly defective, which could have introduced an inadequate amount of an active ingredient into a batch. This highlights which specific manufacturing practice powered by big data?

(A) The in-store shopping experience
(B) Healthcare billing analytics
(C) Claims fraud detection
(D) The practice of predictive maintenance

Oct/Nov 2008

94. Consider the following statements regarding approaches to accumulating data:

I. Time aggregation entails collecting every single data point that pertains to a single resource over a particular time period.

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II. Spatial aggregation entails collecting every single data point for a collection of resources over a predetermined amount of time.

Which of the above statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2013

95. Consider the following statements regarding the data mining process:

I. During the data preparation stage, actions such as exploration, profiling, and data cleansing are carried out to correct errors.
II. Before being applied to the whole set of data, machine learning algorithms are typically trained on larger sample data sets to prevent outliers.

Which of the above statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2017

96. Match the Business Analytics skills in List-I with their corresponding practical application in List-II.

List I: (Skill)

P. Communication
Q. Curiosity
R. Attention to detail
S. Critical thinking

List II: (Practical Application)

1. Thinking critically about the implications of the obtained data, not just recognising helpful data.
2. Writing and presenting results effectively to upper management or team members.
3. Paying close attention to the numerous intricate aspects of data and the recommendations it may give.
4. Inquiring about how things function, relate to one another, and develop through time.

(A) P-2, Q-4, R-3, S-1
(B) P-4, Q-2, R-1, S-3
(C) P-2, Q-3, R-4, S-1
(D) P-1, Q-4, R-3, S-2

May/June 2019

97. Read the following scenario and answer the question that follows:

A marketing team launches an SMS campaign containing special promotional URLs. Whenever a mobile user clicks the URL, they are momentarily routed through an intermediate tracking server before reaching the actual product page. This ensures the campaign can accurately count the clicks and bypass the issue of mobile devices not providing HTTP referrer information. What specific analytics data collection method is being employed?

(A) Packet Sniffing
(B) Link Redirection
(C) IP Address Analysis
(D) Sessionisation

Oct/Nov 2010

98. Consider the following statements regarding big data in the Oil and Gas sector:

I. Predictive equipment maintenance enables businesses to predict the remaining optimal life of deep-water site systems.
II. Oil exploration and discovery utilises seismic monitors to uncover new oil and gas sources previously overlooked.
III. Oil production optimization relies strictly on structured financial databases, avoiding any unstructured data from sensors.

Which combination of statements is correct?

(A) I and II
(B) I and III
(C) II and III
(D) I, II, and III

May/June 2025

99. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:

Assertion (A): The qualitative approach of forecasting generates subjective findings.

Reason (R): The qualitative approach is based on mathematics and enormous volumes of statistics rather than the knowledge and experience of experts.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

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uptime and operational efficiency. In the entertainment sector, mining viewing habits enables personalised content suggestions to enhance user engagement and platform retention within the industry.

9. (B) 1995
The formalisation of data mining as a professional field reached a significant milestone in 1995. This was the year the First International Conference on Knowledge Discovery and Data Mining took place in Montreal. This event marked the transition from academic research to a structured global dialogue, setting the stage for subsequent annual meetings and the growth of data science.

10. (C) Having dedicated web and mobile analytics running in isolation is sufficient for accurate tracking.
Modern consumer behaviour involves switching between different devices and platforms seamlessly. Tracking a user effectively requires a unified approach that bridges the gap between desktop and mobile interactions. Running these systems in isolation creates data silos, preventing organisations from understanding the complete customer journey. A customised, integrated tracking solution is necessary to capture accurate, cross-platform and multi-device behavioural insights.

11. (B) P-2, Q-3, R-4, S-1
Hadoop provides the core framework for storing and analysing large datasets across commodity hardware clusters. Within this ecosystem, MapReduce handles the distribution and condensation of data through filters. YARN manages the necessary resources and job scheduling for the cluster. Spark offers an advanced interface for programming these clusters, utilising implicit data parallelism for high-speed computing tasks across nodes.

12. (C) Image Tagging and Beacons
Proficiency in Excel revolves around data manipulation and automation within spreadsheets. Core competencies include managing workbooks, creating macros, and ensuring data validation. In contrast, image tagging and beacons are technologies specific to mobile analytics and digital marketing tracking. They are not considered standard components of the Excel software suite or necessary skills for its professional application in business environments.

NODIA

13. (A) Common identifier fields such as names, addresses, and phone numbers.
Structured data is characterised by its organisation into a highly predictable and tabular format. Common examples include databases containing specific fields for personal identifiers like names and phone numbers. Unlike multimedia files or social media reviews, which are unstructured, these fields follow a strict schema that allows for easy searching, sorting, and analysis within traditional relational database management systems.

14. (D) Predictive analytics
Utilising machine learning to forecast future client opinions based on social media data is a hallmark of predictive analytics. This approach uses historical information to estimate likely outcomes or behaviours before they occur. By analysing sentiment and engagement patterns, marketing teams can anticipate customer needs and trends, allowing for proactive strategies rather than merely reacting to past historical performance.

15. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
For business analytics to deliver value, there must be a synergy between strategic leadership and technical execution. Executives provide the necessary ownership and vision, while IT departments manage the infrastructure and tools required for agile deployment. This collaboration ensures that predictive models are supported by the right technology and aligned with broader organisational goals for long-term commercial success.

16. (C) Helping websites support mobile surfing by identifying best practices for mobile optimization.
The W3C Mobile Web Initiative focuses on making the web accessible and usable on mobile devices. Its primary goal is to establish standards and best practices that help developers optimise content for smaller screens and varying network conditions. By encouraging mobile-friendly design, the initiative ensures a consistent and

ANSWERS

1. (B) The in-store shopping experience
Retailers leverage big data to refine how customers interact with physical locations. Tracking geolocation allows businesses to deliver hyper-local, personalised engagement directly to mobile devices. This digital integration improves the brick-and-mortar environment by offering immediate value through targeted incentives, effectively blending digital tracking with physical browsing to enhance the overall consumer journey within the retail store environment.

2. (C) Defining the time interval over which resources are sampled for data collection.
The polling period serves as the specific temporal window for gathering data across multiple resources. In spatial aggregation, this interval dictates how frequently the system captures measurements to produce a consolidated output. Adjusting this timeframe directly alters the dataset volume and frequency, ensuring that the resulting aggregate accurately reflects activity occurring within the designated sampling window for reporting.

3. (B) Classification — Using Naive Bayes classifiers and k-nearest neighbor algorithms.
Classification involves assigning data points to predefined categories based on specific features. Algorithms like Naive Bayes and k-nearest neighbor are standard methodologies used to build predictive models for categorical outcomes. These techniques distinguish themselves from clustering or regression by focusing on membership in known classes rather than discovery of unknown groups or numerical trend estimation in datasets.

4. (B) Involve end-users in adoption, giving them a stake in the model alongside change management.
Successful implementation of analytical models requires buy-in from those using the system daily. When frontline employees are excluded from the development process, resistance often occurs because they do not see the relevance to their performance. Integrating change management ensures that personnel understand the value of the insights and feel a sense of ownership over the resulting organizational outcomes.

5. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Identifying specific mobile networks or countries solely through IP addresses is difficult due to shared infrastructures. Virtual operators often piggyback on major networks, and internet gateways can be routed across national borders. These technical realities mean that an IP address may not reflect a user's true geographical or provider origin, supporting the assertion that IP data alone is insufficient.

6. (A) I, II, IV, and V
Financial institutions utilise big data to identify complex patterns indicative of fraud and to meet stringent regulatory requirements. These analytics tools reduce risk while enabling firms to find new market opportunities. While big data clarifies dependencies between entities, it does not hinder innovation; rather, it facilitates smarter decision-making and compliance with global standards like Basel III and Dodd-Frank regulations.

7. (A) 3, 1, 4, 2
The forecasting sequence begins with establishing a foundation for future projections to set the scope. Next, projections are formulated for ongoing business activities to create a baseline. Adjustments are then made to refine accuracy based on specific variables or market conditions. Finally, looking back at the steps allows for evaluation and improvement of the entire forecasting methodology for future.

8. (C) P-4, Q-2, R-3, S-1
Different sectors apply data mining to solve industry-specific challenges efficiently. Retailers use clickstream analysis for product recommendations, while financial services focus on risk models for loan validation. Manufacturing relies on data to improve plant

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(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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100. Consider the following statements regarding the benefits of data mining:

I. It helps increase productivity by enabling sales teams to leverage results for enhanced lead conversion rates.
II. It degrades supply chain management by overwhelming managers with unstructured market demand projections.
III. It supports predictive maintenance applications that identify potential problems before they occur, avoiding unscheduled downtime.
IV. It assists business executives in devising strategies to mitigate financial, legal, and cybersecurity threats.

Which combination of statements is correct?
(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, and IV

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efficient browsing experience for users across the global mobile ecosystem.

17. (A) Improving the efficiency of the supply chain
Logistics companies utilise sensor data and transactional logs to monitor the flow of goods in real-time. By analysing this information, management can identify bottlenecks and optimise delivery routes. This application of big data directly contributes to cost savings and better resource management, illustrating how data-driven insights can streamline operations from the warehouse to the final consumer.

18. (A) Spatial aggregation
Information extraction involves identifying specific structured data from unstructured text through tasks like feature extraction and named-entity recognition. These processes focus on the semantic and linguistic properties of the data. Conversely, spatial aggregation is a method of collecting and summarising data points based on geographical locations or resource clusters. It is a data collection technique rather than extraction.

19. (B) Assuming that KDD and data mining are identical concepts with no distinct technical differences.
Knowledge Discovery in Databases (KDD) is a comprehensive process that encompasses several stages of data analysis. Data mining is a specific, crucial step within this broader framework dedicated to identifying patterns. While the terms are often used interchangeably in casual conversation, they are technically distinct, with data mining being a component of the larger, end-to-end KDD methodology.

20. (C) Curiosity
A successful business analyst must possess the drive to understand the inner workings behind organisational processes. This inquisitive nature leads to deeper insights into how different workflows interconnect and develop over time. By asking probing questions before building models, the analyst ensures that the resulting data structures are relevant to the actual business environment and its unique historical development.

21. (A) YARN Negotiator Parsing
Common methods for gathering mobile web data include analysing HTTP headers, using link redirection, and packet sniffing. These techniques focus on capturing traffic between the device and the server. YARN is a resource management layer within the Hadoop ecosystem used for job scheduling in big data processing. It is not a mechanism for collecting frontend web or mobile analytics.

22. (D) P-3, Q-1, R-4, S-2
Big data in healthcare serves various functions, from genomic research predicting future health issues to patient outcome analysis improving care quality. Claims fraud detection involves spotting specific behaviours across numerous reports to identify suspicious activity. Additionally, healthcare billing analytics focuses on identifying missed revenue opportunities and improving cash flows. These applications demonstrate how data-driven insights enhance patient care quality.

23. (D) The result will represent the average of all data points gathered during both polling sessions.
When the polling interval is shorter than the granularity period, the system performs multiple data collections within that single timeframe. If the granularity is ten minutes and the polling occurs every five minutes, two sets of data are gathered. The final aggregate for that ten-minute window will then calculate the average across all the points collected during those sessions.

24. (B) Sequence and path analysis - Linear regression.
Sequence and path analysis focuses on finding patterns where one event leads to another over time. This is distinct from linear regression, which is a statistical method used to model the relationship between a dependent variable and one or more independent variables. While both are data mining tools, linear regression is primarily used for numerical prediction rather than temporal sequences.

25. (A) Presenting business analytics as isolated and contradictory to current strategies to ensure maximum disruption.
Successful business analytics must be integrated with existing organisational strategies rather than isolated from them. Presenting analytics

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as contradictory to current goals creates resistance and hinders adoption. Instead, effective implementation requires alignment with clear business objectives and support from leadership. Integration across various devices and strategies ensures that data-driven insights provide actionable value that supports rather than disrupts.

26. (A) App installation doesn't require a sign-in, making individual user tracking completely impossible.
While some applications do not require an immediate sign-in, tracking individual users is still possible through various identifiers and device fingerprints. Mobile analytics utilises unique device IDs and session tracking to monitor user behaviour over time. The idea that tracking is completely impossible without a sign-in is incorrect, as developers have multiple technological methods to distinguish and follow individual users.

27. (C) Assertion (A) is true, but Reason (R) is false.
Financial institutions are indeed under significant pressure to comply with anti-money laundering regulations. Big data analytics aids this by identifying suspicious patterns in vast transactional datasets. However, these tools are designed to facilitate reporting and ensure compliance, not to bypass legal requirements. The purpose of analytics is to improve the accuracy and speed of detecting illicit conduct for filing.

28. (C) Representing data through graphics like charts and plots to simplify the communication of complex relationships.
Data visualisation is the practice of translating information into a visual context, such as a map or graph. This process makes it easier for the human brain to understand trends, outliers, and patterns within large datasets. By using visual elements, complex data relationships can be communicated more effectively to stakeholders, facilitating quicker insights and data-driven decision-making across an entire organisation.

29. (B) I and III
Structured data is organised in a clear, tabular format suitable for relational databases. Semi-structured data, like XML and JSON files, contains tags or markers to separate elements but does not fit a strict table. Unstructured data, such as emails or social media posts, lacks a predefined model. Therefore, the statements correctly identifying structured and semi-structured formats are accurately represented.

30. (A) Only I
The Association for the Advancement of Artificial Intelligence (AAAI) was instrumental in the early years of the KDD conference. While the conference started in 1995, it was sponsored by AAAI for several years. However, the specialised journal Data Mining and Knowledge Discovery was actually launched in 1997, not 1999, making the second statement chronologically incorrect regarding the journal release.

31. (B) I, III, and IV
Business analytics is vital for enhancing organisational performance and making informed decisions. It provides a clear view of operational successes and failures, allowing for faster and more accurate choices. Furthermore, by answering customer-centric questions, analytics inspires innovation. While it offers a competitive edge, it cannot guarantee the absolute elimination of all competitors, as market dynamics involve numerous external factors.

32. (B) Tableau — A leading platform for end-to-end data analytics and self-service visual analysis.
Tableau is widely recognised for its robust data visualisation and business intelligence capabilities. It allows users to create interactive and shareable dashboards that highlight trends and insights. In contrast, NoSQL databases are non-relational, Hadoop is open-source, and Spark is a processing framework rather than a visualisation tool. Tableau primary function is to make data accessible through visual discovery.

33. (D) I, II, III, IV, and V
Comprehensive Excel proficiency requires mastering several core functionalities. Users must be able to manage spreadsheets and create complex formulas, including IF statements for logical operations. Additionally, linking data across sheets and using Pivot Tables for data summarisation are essential skills. Together, these capabilities enable a professional to handle, analyse, and report data effectively within the standard Excel software environment.

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34. (D) Attention to detail
Catching minor formatting errors, such as missing zip codes in a large dataset, requires a high level of precision. A small discrepancy can lead to significant inaccuracies in the final analytical output. This skill ensures that the data is clean and the resulting insights are reliable. By noticing these intricate details, the scientist prevents skewed results and maintains integrity.

35. (B) The product won't work because tracking individuals and session lengths differs between desktop and apps.
Desktop web analytics relies heavily on cookies and browser-based session IDs to track users. In contrast, mobile applications utilise different identification methods, such as unique device IDs and in-app event tracking. Because the underlying technologies and user interaction patterns vary significantly between these platforms, a tool designed exclusively for desktop web analytics will fail to capture accurate mobile data.

36. (A) I and II
Data collection involves gathering both structured and unstructured information from diverse sources. If data is too complex for standard warehouses, it is often stored in data lakes with associated metadata. However, data cleaning is the process of removing errors and redundancies, not injecting them. Ensuring data quality is crucial for accurate analysis, making the statement about intentionally adding redundancy incorrect.

37. (D) P-2, Q-4, R-1, S-3
Each visualisation type serves a specific analytical purpose. Pie charts show the distribution of parts within a whole, while histograms depict numerical distributions without gaps. Scatter plots are ideal for identifying relationships between two variables in regression analysis. Heat maps use colour to represent behavioural data based on geographical or spatial locations, making them effective for identifying high-activity zones.

38. (A) Risk modelling and management for prospective clients
Insurance firms apply data mining to evaluate the historical risk profiles of new applicants. By comparing current applications against past data, models can predict the likelihood of claims and help underwriters decide whether to approve a policy. This process is a core application of risk management, allowing the company to maintain financial stability by accurately assessing prospective client liabilities.

39. (C) Interpreting historical data and KPIs to discover trends and patterns through methods like data aggregation.
Descriptive analytics focuses on summarising what has happened in the past. It involves the use of data aggregation and data mining to provide a clear picture of historical performance. By examining key performance indicators and past trends, businesses can understand their previous activities. This type of analytics serves as the foundation for more advanced diagnostic, predictive, and prescriptive analyses.

40. (B) Avoiding food spoilage and ensuring orders are fulfilled accurately and sent on time.
By accurately forecasting order volumes, a meal kit company can optimise its inventory and logistics. This prevents the over-ordering of perishable goods, thereby reducing food spoilage. Additionally, understanding purchasing patterns ensures that the right ingredients are available for fulfilment, leading to timely and accurate deliveries. This practical application of predictive analytics directly improves operational efficiency and customer satisfaction.

41. (C) Ensuring complete elimination of all competitive markets through monopolistic data scaling.
Real-world big data challenges include managing data quality, identifying compatible tools, and making data accessible to non-technical users. These issues focus on the technical and organisational hurdles of handling massive datasets effectively. Monopolising markets through data scaling is not a standard challenge mentioned in the context of implementing big data analytics, which is typically concerned with efficiency and integration.

42. (C) Petabytes
Big data is defined by its massive scale, which exceeds the processing capacity of traditional software. While datasets start in the terabyte

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would otherwise be difficult to quantify. By using Natural Language Processing, text mining turns qualitative text into quantitative insights, aiding in decision-making.

60. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Predictive analytics relies on historical data to estimate the likelihood of future outcomes. Algorithms such as classification, which assigns data to categories, and regression, which predicts numerical values, are core tools in this process. By identifying patterns in past behaviour, these models provide a probabilistic view of what might happen next, allowing organisations to make proactive strategic choices.

61. (D) The ability to determine which marketing strategies are successful and which are not producing results.
By examining traffic sources and lead generation, the CEO used analytics to evaluate the performance of different marketing channels. This data-driven approach allowed for an objective assessment of each strategy effectiveness. Identifying underperforming channels enabled the firm to reallocate its budget toward more successful areas, optimising the overall marketing spend and improving the return on investment for the firm.

62. (D) The process of collecting data from customers who browse a website using mobile phones.
Mobile web analytics specifically focuses on gathering and analysing data from users who access websites via cellular devices. It tracks metrics like page views, visit duration, and navigation paths within a mobile browser. This information helps businesses understand the mobile user experience, allowing them to optimise their websites for smaller screens and mobile-specific behaviours to improve engagement rates.

63. (C) Both I and II
Big data analytics serves multiple critical roles in modern business. It enhances customer integration by consolidating data from various touchpoints to provide a complete view of client actions. Simultaneously, it is essential for fraud detection, as it can monitor transactions in real-time and compare them against historical patterns to flag suspicious activity. Both statements correctly highlight these key applications.

64. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Sentiment analysis is a powerful tool for understanding how customers feel about a brand or product. By identifying positive and negative sentiments in data sources like social media, businesses can monitor changes in attitude over time. This insight allows companies to address customer concerns proactively and improve their processes, ultimately strengthening the connection between the business and its clients.

65. (D) Searching through big data sets to find patterns and relationships that assist in resolving commercial issues.
Data mining is a sophisticated analytical process that involves exploring large datasets to uncover hidden patterns and correlations. These findings are then used to solve complex business problems and make informed decisions. Unlike manual inspection, data mining utilises automated computational tools to handle the volume and complexity of modern big data, providing actionable insights that drive commercial success.

66. (B) The ability to solve problems
Connecting isolated data points to draw actionable conclusions that address a company challenges is a core aspect of problem-solving. An analyst must be able to take complex information and turn it into a solution that alleviates organisational pain points. By focusing on wait times and customer feedback, the analyst demonstrates how data-driven insights can be directly applied.

67. (A) Only I
Modern smartphones, including iPhones and Android devices, are designed to accept browser cookies by default to facilitate a smooth web browsing experience. This makes cookie-based tracking possible on mobile platforms. However, the second statement is incorrect because handheld devices do perform image caching, which can affect the reliability of using images or beacons for tracking page views and activity.

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are parseable, making them a valuable source for mobile analytics to understand browsing behaviour, device types, and network usage without needing complex client-side tracking scripts.

52. (A) Optimize network capacity
Telecommunications operators use real-time utilisation analytics to monitor network performance and congestion. By identifying areas with surplus capacity and rerouting bandwidth to congested zones, they ensure a consistent user experience. This application of big data allows for dynamic resource management, reducing service sluggishness and maximising the efficiency of the existing infrastructure to meet fluctuating demand throughout the day.

53. (D) Components of a prediction reflect both what has happened in the past and what is anticipated in the future.
Forecasting is a dual-focused process that integrates historical data with anticipated future conditions. It uses both quantitative mathematical models and qualitative expert judgment to estimate upcoming trends. Modern firms rely heavily on these predictions for planning and budgeting. A successful forecast acknowledges that past performance provides a foundation, while future variables must be considered to create an accurate projection.

54. (D) Improving operational efficiencies and cutting down on unnecessary spending or process redundancy.
Data mining identifies areas where business processes can be streamlined. By analysing operational data, corporations can uncover redundancies and inefficiencies that lead to unnecessary spending. This insight allows management to optimise workflows, improve supply chain logistics, and reduce waste. Ultimately, these data-driven improvements lead to significant cost savings across various departments without sacrificing service quality or operational output.

55. (B) The use of skills and technologies to analyze organizational data for insight and data-driven decision-making.
Business analytics refers to the systematic exploration of an organisation's data through statistical and operations analysis. It involves using specialised skills and tools to derive meaningful insights that inform strategic decisions. Unlike manual record-keeping, BA leverages technology to process large volumes of information, ensuring that corporate choices are based on empirical evidence rather than subjective judgments.

56. (A) Mobile makes it harder to prevent ads, unlike web applications where ad-blockers are easily installed.
Desktop browsers allow users to easily install third-party extensions that block advertisements. On mobile platforms, especially within native apps, preventing the display of integrated ads is significantly more difficult for the average user. This technical barrier makes in-app advertising a more reliable revenue stream for developers, as the ads are often part of the application own content delivery system.

57. (A) Batch processing analyzes large data blocks over time, suitable for longer turnaround periods.
Batch processing is a method where large volumes of data are collected and processed as a single group. This approach is ideal for tasks where immediate results are not required, such as end-of-day reporting. In contrast, stream processing handles data in real-time as it is generated. Batch processing remains a cost-effective and efficient way to handle massive datasets for analysis.

58. (B) Line graphs — Connecting data points with segments to differentiate variables by stacking them.
Line graphs are primarily used to show trends over time by connecting individual data points with line segments. While they can display multiple variables, the primary purpose is to visualise change and continuity. The description of stacking them to differentiate variables is more characteristic of stacked bar charts or area charts rather than standard line graphs for progression.

59. (C) Converting unstructured text into a structured format to find relevant patterns and insights.
Text mining is the process of transforming unstructured text data, such as emails or social media posts, into a structured format that can be analysed. This allows businesses to identify recurring themes, sentiments, and patterns that

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a data collection strategy to ensure accurate tracking.

77. (A) Healthcare billing analytics
Analysing large volumes of payment activity across various payers to uncover administrative errors and recover lost revenue is a classic example of healthcare billing analytics. This application of big data helps hospitals identify bottlenecks in their cash flow caused by coding mistakes. By streamlining the billing process, healthcare providers can improve their financial health while ensuring accurate payments.

78. (C) Qualitative generates subjective findings from expert judgment, while quantitative uses mathematical procedures.
The primary difference between these two forecasting methods lies in their approach to data. Qualitative forecasting relies on the experience and intuition of experts to generate subjective insights. In contrast, quantitative forecasting uses mathematical models and historical statistics to project future trends. Both have their place in business planning, with quantitative offering data-driven precision and qualitative providing context.

79. (A) I, II, III, and V
Data mining software offers varied capabilities, from preparation to built-in algorithms. Open-source options like DataMelt and Orange provide free access to these tools, while vendors like RapidMiner offer commercial solutions. Many providers, including H2O.ai and Dataiku, also offer free versions of their platforms. Knime is notable for its open-source platform, which contradicts the fourth statement regarding closed-source systems.

80. (C) Extractive analytics
Business analysis is generally categorised into four primary types: descriptive, diagnostic, predictive, and prescriptive. These approaches respectively answer what happened, why it happened, what will happen, and how to handle it. Extractive analytics is not a recognised standard category in the field of business analysis, which focuses on these four logical stages of turning data into actionable insights.

81. (B) Sessionisation
Sessionisation is the process of grouping individual user interactions into distinct time-bound periods. In this scenario, the bank's analytics tool identifies the 3-minute app visit and the 45-minute desktop visit as two separate sessions. This allows businesses to understand how users engage with different platforms at different times, providing a more detailed view of the customer journey and cross-platform behaviour.

82. (C) Enabling businesses to meet customer needs by understanding their demands and satisfaction levels.
Big data analytics is crucial because it allows businesses to gain a deep understanding of their customers. By analysing feedback and behaviour, companies can identify demands and measure satisfaction more accurately. This insight enables the development of better products and services, fostering customer loyalty and competitive advantage. Effective analytics provides the evidence needed to act quickly and innovate.

83. (A) The Egyptians
Historical records indicate that the Egyptians were the first to develop basic forms of data visualisation to assist with navigation. These early visual aids were used long before the 17th century, marking the beginning of humanity use of graphics to simplify complex spatial information. This foundational work set the stage for the subsequent development of more sophisticated maps and charts.

84. (D) Recommendation engines powered by data mining
Online bookstores use data mining to analyse previous purchases and navigation patterns to power their recommendation engines. These systems automatically suggest items that align with a user interests, enhancing the shopping experience. This application of analytics not only drives sales but also improves customer engagement by providing personalised content, illustrating how data-driven insights can tailor a digital platform.

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68. (D) Because they are organized to some degree but lack the strict structure of a relational database.
Semi-structured data, such as XML and JSON, contains internal tags and markers that provide organisation. However, it does not adhere to the rigid tabular format of rows and columns found in traditional relational databases. This middle ground allows for flexibility in data representation while still being machine-readable, making it distinct from both fully structured data and completely unorganised formats.

69. (A) Only I
The AAAI played a significant role in sponsoring the early KDD conferences, helping to establish data mining as a professional discipline. The first statement correctly reflects this historical sponsorship. The second statement remains incorrect as the Data Mining and Knowledge Discovery journal was first published in 1997. This highlights the early academic and organisational efforts that shaped data science.

70. (C) Difficulty hiring suitable personnel due to growing demand and facing potential data storage limitations.
Smaller enterprises often struggle to compete with larger corporations for specialised analytical talent. The high demand for data scientists and analysts makes hiring difficult for MSMEs with limited budgets. Additionally, these businesses may face technical hurdles such as storage constraints. These factors together create significant barriers to the successful adoption and implementation of advanced business analytics within smaller structures.

71. (D) I, II, III, IV, and V
A wide variety of platforms and technologies are used to build and track mobile websites and applications. These include standard web technologies like HTML/JavaScript and Ruby on Rails, as well as specialised mobile plugins like the WordPress Mobile Pack. Additionally, legacy and specialised systems like ColdFusion and TypePad Pro are part of the ecosystem analysts navigate to collect data.

72. (B) I and III
Big data in manufacturing is used for predictive maintenance by analysing sensor data to prevent equipment failure. It also optimises production by identifying delays in the manufacturing process. These applications increase operational effectiveness by allowing for proactive responses. The second statement is incorrect because big data is intended to enhance, not reduce, effectiveness through smarter, data-driven management of industrial workflows.

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73. (B) Collecting raw data and presenting it in a summary format for analysis.
Data aggregation is a fundamental step in statistical analysis where raw information is gathered from multiple sources. This data is then summarised to highlight key trends and metrics, making it easier for analysts to interpret. By condensing large volumes of information into a manageable summary, organisations can perform more effective statistical reviews and derive actionable insights from their data.

74. (A) 2, 4, 3, 1
The data mining process follows a logical sequence starting with data collection from various sources. Next, data preparation involves cleaning and organising the information. The actual data mining step then identifies patterns and relationships within the prepared dataset. Finally, the interpretation and analysis of the results provide the meaningful insights needed to solve business problems and guide decisions.

75. (A) I and II
Implementing business analytics requires securing approval from senior management through clear, measurable goals. It also demands a firm commitment to the project, even if the return on investment is not immediate. The third statement is incorrect because end-users should be involved in the process, as their engagement is crucial for successful change management and the long-term adoption of tools.

76. (D) P-3, Q-4, R-2, S-1
Packet sniffing captures all client-server communication, while image tags or beacons use visual assets for tracking. Link redirection is the primary method for recording clicks from marketing campaigns. HTTP header analysis provides basic information about the user phone and browser. Each method has distinct attributes that analysts must consider when designing

range, they commonly scale up to petabytes. This level of magnitude requires specialised distributed computing frameworks to store and analyse the information. Understanding these sizes is essential for organisations to plan their infrastructure and choose appropriate big data technologies.

43. (A) I, II, and IV
Natural Language Processing includes tasks like summarisation for condensing text and categorisation for topic classification. Named-entity recognition is another key subtask used to identify specific entities like names or places. However, sentiment analysis is not restricted to internal data; it is frequently applied to external sources like social media to gauge public perception, making the third statement incorrect.

44. (A) I, II, and III
Core elements of business analytics include data mining for pattern discovery, text mining for structured insights from text, and data aggregation for summarising raw info. These processes work together to provide a comprehensive view of organisational data. Conversely, forecasting does not eliminate future unpredictability; instead, it uses quantitative and qualitative techniques to make informed estimates about future unknown events.

45. (D) Critical thinking
Investigating the underlying implications of data rather than just presenting a chart is a clear sign of critical thinking. This skill allows an analyst to look beyond the surface numbers to understand the reason behind trends. By questioning the data and its relevance to business goals, the analyst can provide meaningful recommendations that help restructure strategies and solve problems.

46. (A) The fact that most modern mobile browsers strictly block all JavaScript functions by default.
JavaScript page tagging relies on the browser ability to execute code to track user interactions. While users can manually disable JavaScript, modern mobile browsers do not block it by default; in fact, most websites require it to function correctly. The real challenge lies in the assumption that JavaScript is always enabled and running correctly on the user specific device.

47. (A) I, II, and III
In retail, big data supports product development and helps reduce customer churn through social media analysis. Identifying customer lifetime value is another key application that highlights high-value clients. However, pricing analytics and optimisation do not ignore profitability; instead, they use data to find the most profitable price points while considering market demand and client base characteristics within the industry.

48. (B) From one minute to one month
Granularity refers to the level of detail in a dataset, specifically the time intervals used for data collection and analysis. In most analytical contexts, this range is defined as being from one minute to one month. This range allows businesses to choose the appropriate level of detail, whether they need high-frequency real-time monitoring or broader monthly trends for strategic planning.

49. (P) 3, Q-1, R-2, S-4
Association rules use if-then statements to evaluate relationships between variables, while clustering groups elements with shared characteristics. Sequence and path analysis identify patterns where events lead to subsequent occurrences over time. Neural networks are complex models designed to mimic the human brain functioning. Together, these techniques allow for a wide range of analytical tasks from discovery to prediction across industries.

50. (D) Assertion (A) is false, but Reason (R) is true.
Abandoning an agile data strategy because of lack of immediate revenue during the initial phase is ill-advised. Data models often require time to evolve and improve in accuracy as more data is collected. A high level of dedication is necessary for long-term success, as the value of analytics often increases over time, eventually providing a significant return on investment.

51. (C) Traffic is routed through these servers, allowing logs to yield parseable and analytical information.
WAP gateways act as intermediaries between mobile devices and the internet. Because mobile traffic is routed through these servers, the resulting logs contain a wealth of information about user requests and interactions. These logs

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85. (D) Finding patterns in data sets to assist in predicting future trends and consumer behaviors.
Business analytics is essential for identifying patterns within organisational data that can predict future market trends and consumer behaviours. This predictive capability allows companies to stay ahead of the competition and adapt their strategies proactively. Rather than relying solely on historical reviews, successful enterprises use BA to turn data into a strategic asset that informs all levels of decision-making.

86. (C) Determining peak hours and when it is most beneficial to boost the level of efficiency.
By analysing traffic patterns, the fast-food manager identified specific peak hours when order volume surged. This data-driven insight allowed for more efficient staffing, ensuring that extra help was available when needed most. This practical application of business analytics directly boosts operational efficiency and customer service by aligning resource allocation with actual demand, demonstrating how data solves management challenges.

87. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
NoSQL databases are specifically designed to handle large volumes of unstructured or raw data. Unlike traditional relational databases, they are non-relational and do not require a fixed schema. This flexibility makes them an excellent choice for modern big data applications where information comes in diverse formats. Their ability to scale and process non-tabular data efficiently justifies their use.

88. (A) Big data is too large or complex for typical relational databases to process effectively and timely.
Traditional relational databases were designed for structured data that fits neatly into tables. However, the sheer volume and complexity of big data often exceed the processing capabilities of these systems. This challenge necessitates the use of more advanced technologies like distributed computing and NoSQL databases, which can handle the scale and variety of modern information more effectively and timely.

89. (B) P-3, Q-2, R-4, S-1
Tokenization separates text into individual words or sentences, while stemming removes affixes to find the root word. Summarization condenses long passages into a concise overview. Part-of-speech tagging assigns labels like noun or verb to each token. Together, these techniques are essential for preparing text data for analysis, allowing machines to understand the structure and meaning of human language.

90. (C) P-3, Q-4, R-1, S-2
Descriptive analytics focuses on historical patterns, while diagnostic analytics seeks to understand the reasons behind past performance. Predictive analytics uses statistical models to estimate future outcomes. Prescriptive analytics goes further by making recommendations for future actions. This progression from understanding the past to guiding the future provides a comprehensive framework for using data to drive organisational success and strategic growth.

91. (D) I, II, III, IV, and V
A successful business analyst needs a diverse skill set that includes critical thinking and problem-solving to address organisational challenges. Communication skills are essential for presenting findings, while curiosity drives the analyst to dig deeper into the data. Finally, attention to detail ensures the accuracy and reliability of the analytical results. Together, these attributes enable an analyst to provide valuable insights.

92. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Identifying unique visitors on mobile devices is a significant challenge in web analytics. This is largely because JavaScript and HTTP cookies, which are standard for tracking on desktops, are often unreliable or handled differently by various mobile browsers and operating systems. These technical inconsistencies make it difficult to maintain a persistent and accurate count of unique users across multiple mobile sessions.

93. (D) The practice of predictive maintenance
Predictive maintenance involves using real-time sensor data to identify equipment components that may fail or are functioning incorrectly. In

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(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2006

7. Which of the following provides the most inclusive definition encompassing all forms of financing activity that aid in the achievement of sustainable development, including environment, society, and government?
(A) Climate finance
(B) Sustainable finance
(C) Green finance
(D) Environmental finance

May/June 2021

8. What is the defining characteristic that distinguishes a green bond from a standard conventional bond?
(A) It guarantees an higher fixed interest rate for the lender to cover risks.
(B) Proceeds are used exclusively for green projects, assets, or activities.
(C) It can only be issued by national governments and never by private actors.
(D) It requires the borrower to relinquish voting rights to the debt holder.

Oct/Nov 2010

9. A corporation issues a green bond to construct a new solar farm. The solar farm is moved into a distinct entity known as a special purpose vehicle (SPV). The repayment to the lenders will be made exclusively from the revenue generated by this solar farm, and the issuer's other cash flows are completely insulated. Which type of bond has been issued?
(A) Organization-guaranteed Bond
(B) Asset Backed Bond
(C) Hybrid Bond
(D) General Obligation Bond

May/June 2005

10. A multinational bank intends to implement ISO 32210 to improve its sustainability performance. The bank's leadership is unsure where to begin within the standard's guiding principles. According to the structure of ISO 32210, which elements should the organization focus on initially before working concentrically inwards?
(A) Continual Performance Improvement and external reporting standards.
(B) Internal operational performance and logistical management of supply chains.
(C) Governance and culture, strategy alignment, and objectives.
(D) Tax strategy and political lobbying within sovereign jurisdictions.

Oct/Nov 2022

11. Consider the following potential advantages of the green bond market:
I. Providing an additional source of financing leveraging institutional investors.
II. Reducing the maturity mismatch for financing long-term projects.
III. Improving the issuers' reputations and providing transparency.
IV. Offering potential cost advantages through the increased speed of book building.
V. Facilitating the greening of traditionally brown sectors.
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

May/June 2018

12. A regional development bank is structuring a new financing framework that strictly addresses the mitigation of greenhouse gas emissions and renewable energy expansion, explicitly avoiding any broader social considerations like local community conflict resolution. Under the United Nations Environment Programme classifications, which term specifically applies to this exact subset of financing?
(A) Sustainable finance
(B) Social impact finance
(C) Climate finance
(D) Governance finance

Oct/Nov 2016

13. Identify the incorrect pair regarding the entities and the typical green finance instruments they provide.
(A) Retail investors - Green loans
(B) Foundations and NGOs - Project-specific grants
(C) Development financial institutions - Credit enhancement guarantees
(D) Commercial Banks - Green loans

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CHAPTER 24

Green and Sustainable Financing

Oct/Nov 2018

1. Consider the following matching pairs of ISO standards related to green and sustainable finance and their specific focus areas:

List I: ISO Standards

P. ISO 32210
Q. ISO 14007
R. ISO 14008
S. ISO 14097

List II: Focus Areas

1. Monetary valuation of environmental impacts
2. Assessing and reporting investments related to climate change
3. Framework for Sustainable Finance
4. Environmental costs and Benefits

(A) P-3, Q-4, R-1, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-3, R-2, S-1
(D) P-2, Q-1, R-4, S-3

May/June 2007

2. Consider the following statements regarding the proposed Social Stock Exchange (SSE) in India:

I. Both non-profit organisations (NPOs) and for-profit enterprises (FPEs) are envisioned to participate on the SSE.
II. The regulatory framework for onboarding entities onto the SSE will fall under the regulatory ambit of the Reserve Bank of India (RBI).

Which of the above statement(s) is/are correct?

(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2025

3. How does green finance conceptually differentiate itself from sustainable finance within the framework provided by the United Nations Environment Programme?

(A) Green finance takes into account social and economic factors comprehensively.
(B) Green finance exclusively addresses governmental regulatory compliance.
(C) Green finance excludes social factors but includes climate finance.
(D) Green finance focuses solely on humanitarian and community development initiatives.

May/June 2012

4. The Climate Bonds Initiative (CBI) provides a certification scheme to increase investor confidence. In which specific utility sectors are these certificates currently obtainable?

(A) Healthcare, education, aviation, and mining
(B) Telecommunications, artificial intelligence, and agriculture
(C) Building, energy, transport, and water
(D) Retail, hospitality, heavy manufacturing, and shipping

Oct/Nov 2014

5. What is the most appropriate reason a company would utilize ISO 14007 after determining monetary values for environmental consequences?

(A) To issue asset-backed green bonds on an international stock exchange.
(B) To receive instructions on how to use those values for cost and benefit analyses.
(C) To establish the technical vocabulary required for ISO 14001 compliance.
(D) To standardize reporting for greenhouse gas management specifically for the TCFD.

May/June 2019

6. Consider the following statements regarding the International Platform on Sustainable Finance (IPSF):

I. India joined the IPSF in October 2019 as one of its founding members.
II. The platform's 16-member jurisdiction is responsible for over 80 percent of the world's greenhouse gas emissions.

Which of the above statement(s) is/are correct?

NODIA

pharmaceutical manufacturing, this system can flag a defective part before it ruins a whole batch of product. This proactive approach saves costs and ensures product quality by allowing for repairs and replacements based on actual equipment condition rather than just a schedule.

94. (C) Both I and II
Data accumulation can follow two main approaches: time and spatial aggregation. Time aggregation focuses on gathering all data points for a single resource over a specific period. Spatial aggregation, on the other hand, collects data for a group of resources over a predetermined timeframe. Both methods are essential for creating comprehensive datasets that can be used for detailed trend analysis.

95. (A) Only I
During data preparation, analysts perform cleansing and exploration to correct errors and ensure data quality. This stage is crucial for the reliability of the final results. However, the second statement is incorrect because machine learning algorithms are typically trained on smaller, representative sample datasets to build the model before it is applied to the full volume of data in the system.

96. (A) P-2, Q-4, R-3, S-1
Communication is applied when presenting results to management, while curiosity involves inquiring about business developments over time. Attention to detail is used to catch intricate data aspects, and critical thinking is required to understand the deeper implications of the results. Matching these skills with their practical applications ensures that an analyst can effectively turn complex data into useful knowledge.

97. (B) Link Redirection
Link redirection involves routing users through an intermediate server to track clicks before they reach the final destination. This method is particularly useful in mobile marketing where HTTP referrer information may be missing or blocked. By using a redirect, the marketing team can accurately count how many people engaged with a campaign link, ensuring that their performance data remains highly reliable.

98. (A) I and II
In the oil and gas industry, big data facilitates predictive maintenance for offshore systems and uses seismic monitors for discovery. These applications leverage both structured and unstructured data to improve operations and find new resources. The third statement is incorrect because oil production optimisation heavily relies on unstructured data from various sensors and monitors, rather than strictly sticking to structured financial databases.

99. (C) Assertion (A) is true, but Reason (R) is false.
Qualitative forecasting is inherently subjective as it is based on the knowledge and expert judgment of individuals. This makes the assertion true. However, the reason is false because qualitative methods specifically rely on this human expertise rather than on mathematical procedures and massive volumes of statistics, which are the hallmarks of the quantitative approach to forecasting and trend analysis.

100. (B) I, III, and IV
Data mining provides significant benefits, including improved lead conversion for sales teams and support for predictive maintenance to avoid downtime. It also helps executives devise strategies to mitigate various corporate risks. However, it does not degrade supply chain management; instead, it enhances it by providing more accurate demand projections. This leads to better inventory management and smoother operational workflows within the firm.

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May/June 2014

14. Consider the following statements regarding the guidance provided by the ISO 14030 series (Green Debt Instruments) released in 2022:

I. It assists borrowers and financiers to take into account the environmental performance of the project for which funds are sought.

II. It is applicable exclusively to large corporate entities seeking green finance.

III. Key concepts involve identifying significance, context, materiality, and "do no significant harm".

IV. It provides insight on sources of information that can be applied to manage environmental aspects.

Which of the above statement(s) is/are correct?

(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, III, and IV

Oct/Nov 2007

15. According to the statistics provided by the Climate Bonds Initiative (CBI) for the year 2021, what was India's ranking in the Asia-Pacific region in terms of the total amount of green bonds issued?

(A) First
(B) Second
(C) Fourth
(D) Sixth

May/June 2025

16. According to the findings of the Intergovernmental Panel on Climate Change (IPCC) in August 2021, global temperatures are expected to reach or exceed what degree of warming over the next 20 years, on average?

(A) 1.1 degrees Celsius
(B) 1.5 degrees Celsius
(C) 2.0 degrees Celsius
(D) 2.5 degrees Celsius

Oct/Nov 2019

17. Consider the following components recommended by the Green Bond Principles (GBP) for issuing green bonds:

I. Usage of profits/proceeds.

II. Technique of evaluating and selecting projects.

III. Management of the proceeds.

IV. Techniques for providing transparent reports to lenders.

Which of the above statement(s) is/are correct?

(A) I and II only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

May/June 2009

18. Identify the correct pair regarding the ISO technical committees (TCs) and their respective domains.

(A) ISO/TC 322 - Sustainable finance
(B) ISO/TC 207 - Governance of organisations
(C) ISO/TC 309 - Environmental management
(D) ISO/TC 322 - Environmental costs and Benefits

Oct/Nov 2011

19. Arrange the following events related to the regulatory framework in India in chronological order:

1. The Working Group (WG) on Social Stock Exchanges handed in its Report.
2. SEBI issued guidelines on green bonds.
3. SEBI established a Working Group (WG) on Social Stock Exchanges.
4. SEBI established a technical group to develop and offer suggestions on social audit and information repositories.

(A) 2, 3, 1, 4
(B) 3, 1, 4, 2
(C) 2, 1, 3, 4
(D) 3, 2, 4, 1

May/June 2010

20. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): Green financing offers the opportunity to ensure that the three pillars critical for a sustainable future are actively addressed.

Reason (R): There is a growing understanding of the critical need to address the impact of human activity on the environment and the parallel need to understand how environmental changes affect humans.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

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(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

21. An Indian renewable energy company wishes to raise funds internationally to finance the construction of high-efficiency modules. It decides to utilize a regulatory pathway liberalized by the Reserve Bank of India that permits raising finance through green bonds from foreign lenders. Which specific regulatory route is the firm tapping into?
(A) Foreign Portfolio Investment (FPI) route
(B) Foreign Direct Investment (FDI) route
(C) External Commercial Borrowings (ECB) route
(D) Special Purpose Vehicle (SPV) route

May/June 2017

22. Which of the following is NOT an accurate representation of the global tracking of sustainable and green investments as per the Global Sustainable Investment Alliance report?
(A) At least $30.7 trillion of funds are held in sustainable or green investments.
(B) These flows account for less than five percent of global assets under management.
(C) There was an increase of 34% from the year 2016 in these investments.
(D) In some locations, these money flows account for more than half of the tracked assets.

Oct/Nov 2005

23. Identify the correct statement regarding ISO 14008.
(A) It relies exclusively on proprietary standards developed by niche green investors.
(B) It assesses and reports investments specifically related to climate change.
(C) It outlines executive pay, bribery, and corruption metrics for institutions.
(D) It is the global reference for valuing an organization's environmental impacts.

May/June 2020

24. Which term represents the most appropriate alternative designation for a hybrid bond that features a dual-recourse structure?
(A) General obligation bond
(B) Use-of-proceeds bond
(C) Covered bond
(D) Pure-play bond

Oct/Nov 2015

25. A venture capitalist fund provides early-stage seed money in exchange for an ownership stake in a newly established start-up focused on developing decentralized solar mini-grids. What specific category of funding instrument is being utilized in this scenario?
(A) Risk-mitigation product
(B) Equity
(C) Green loan
(D) Project-specific grant

May/June 2013

26. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): Sustainable finance is the most inclusive phrase that encompasses all forms of financing activity aiding in the achievement of sustainable development.
Reason (R): Green finance incorporates climate finance and comprehensively takes into account social and economic factors.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2021

27. An Indian corporation issues bonds outside of India that are denominated in Indian Rupees rather than the local foreign currency. The funds are designated for wind energy projects. The international investors who purchase these bonds assume the risk associated with the fluctuating currency exchange rate. By what specific name are these bonds known?
(A) Green Masala Bonds
(B) Sovereign Green Bonds
(C) Priority Sector Lending Bonds
(D) Asset Backed Municipal Bonds

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May/June 2024

28. Consider the following statements regarding the goals of ISO 14097:

I. Aid finance managers and investors in identifying opportunities and dangers associated with climate change.

II. Provide information and data required to make defensible decisions to reduce or eliminate climate-related risks.

III. Facilitate the shift to a low-carbon economy with fewer risks to the climate and spur more investment in the prospects.

Which of the above statement(s) is/are correct?

(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2008

29. Consider the following matching pairs regarding the types of green bonds and their corresponding definitions:

List I: Types of Green Bonds

P. Organization-guaranteed Bonds
Q. Asset Backed Bonds
R. Hybrid Bonds (first approach)
S. Hybrid Bonds (second approach)

List II: Definitions

1. The financed asset is held by a special purpose entity (SPE); in a default, the lender receives ownership of the SPE's assets and has a claim on the issuer's additional assets.
2. Repayment to lenders is made from all of the issuer's sources of cash flow, and the financed asset is recorded on the issuer's books.
3. The financed asset is listed as an asset owned by the issuer; in a default, the lender takes ownership of the asset and has a claim on other assets if insufficient.
4. The issuer's creditworthiness is only related to the predicted revenue from the financed asset, held by a distinct special purpose entity.

(A) P-2, Q-4, R-3, S-1
(B) P-4, Q-2, R-1, S-3
(C) P-2, Q-3, R-4, S-1
(D) P-1, Q-4, R-2, S-3

May/June 2006

30. Which conceptual understanding best describes how the environment operates within the context of green financing?

(A) It operates as a closed loop affecting only corporate profitability metrics.
(B) It operates strictly as a sub-account of macroeconomic fiscal policies.
(C) It operates independently of human activity and broad societal issues.
(D) It operates as a system including interactions between people and society.

Oct/Nov 2017

31. Consider the following matching pairs regarding countries and their specific green finance regulatory frameworks or initiatives:

List I: Country

P. China
Q. Lebanon
R. Brazil
S. Bangladesh

List II: Regulatory Framework/Initiative

1. Integrated environmental factors into the Internal Process of Capital Adequacy Assessment.
2. Established a "revolving fund" to distribute low-interest loans to green and renewable energy businesses.
3. Started applying credit restrictions to businesses based on environmental compliance in 2006.
4. Subjected commercial banks to a differential reserve requirement policy since 2010.

(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-1, Q-2, R-3, S-4
(D) P-2, Q-1, R-4, S-3

May/June 2008

32. Consider the following matching pairs regarding the broad categories defined under SEBI's definition of "Green Debt Securities" and their included activities:

List I: Broad Categories

P. Clean transportation
Q. Sustainable water management
R. Energy efficiency
S. Sustainable waste management

List II: Included Activities

1. Recycling, waste to energy, efficient disposal of wastage

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2. Mass/public transportation
3. Efficient and green buildings
4. Clean and/or drinking water, water recycling

(A) P-2, Q-4, R-3, S-1
(B) P-1, Q-3, R-2, S-4
(C) P-4, Q-2, R-1, S-3
(D) P-3, Q-1, R-4, S-2

Oct/Nov 2013

33. Which of the following is NOT a disadvantage of investing in green bonds?
(A) The market is still in its infancy and is quite small, with relatively low bond amounts.
(B) Transaction costs associated with labelling, certification, and reporting.
(C) The absence of universal criteria increases the potential for confusion and damage to reputation.
(D) There is a restricted amount of room for the legal enforcement of green integrity.

May/June 2015

34. Identify the incorrect statement regarding the SEBI Guidelines on Green Bonds.
(A) The SEBI Guidelines are in accordance with the Green Bond Principle, the Social Bond Principle, and the Sustainable Bond Principle.
(B) Not all kinds of environmentally friendly projects may be directly compared to one another regarding their impact on emissions per unit of investment.
(C) A simple yes/no checkbox does not convey sufficient information about the long-term viability of initiatives regarding climate risk and the life cycle.
(D) The SEBI criteria apply uniformly to every project, ensuring identical fundraising success across the board.

Oct/Nov 2012

35. In the context of green bond issuance, the process of generating, capturing, and recording investor demand for a bond issue, which can translate into reduced costs for marketing and road shows, is conceptually referred to as:
(A) Ring-fencing
(B) Book building
(C) Credit enhancement
(D) Securitization

May/June 2011

36. Which definition best describes ESG investing?
(A) An investment strategy balancing environmental, social, and governance factors with financial metrics.
(B) An investment strategy solely focused on maximizing short-term dividend payouts through asset liquidation and cost-cutting.
(C) A regulatory framework that penalizes companies for issuing vanilla debt products in emerging markets.
(D) A methodology used exclusively to calculate the monetary valuation of natural resource depletion.

Oct/Nov 2020

37. Identify the incorrect statement regarding the maturity mismatch issue in the financial sector.
(A) The market has many instruments available for hedging green loan duration risks.
(B) Banks in many countries are unable to provide long-term green loans to customers due to the short maturity of their liabilities.
(C) Businesses face additional risks when refinancing long-term environmentally friendly projects with short-term bank credit.
(D) Allowing banks to issue green bonds with medium- and long-term maturities alleviates the limitations on long-term green financing.

May/June 2022

38. Consider the following statements regarding the use of Google Trends to evaluate awareness of green finance:
I. Google Trends information is normalized as the proportion of the total number of searches made in an area during a given time period on all topics.
II. Analyzing the absolute number of searches on a given subject provides a more accurate comparison of changing general interest over time than normalized proportions.

Which of the above statement(s) is/are correct?
(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

NODIA

Oct/Nov 2023

39. Consider the following disclosure requirements provided in the offer document for issuing Green Debt Securities under SEBI regulations:

I. A statement on environmental objectives of the issue.

II. Brief details of the decision-making process for determining the eligibility of project(s) and/or asset(s).

III. Details of the system/procedures to be employed for tracking the deployment of the proceeds of the issue.

Which of the above statement(s) is/are correct?

(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2016

40. A commercial bank maintains a high proportion of loans for environmentally friendly projects in its portfolio. Consequently, the national banking regulator allows this bank to keep a smaller amount of cash reserves compared to banks heavily invested in brown sectors. This micro- and macro-prudential rule closely mirrors the policy implemented by which nation since 2010?

(A) Brazil
(B) China
(C) Philippines
(D) Lebanon

Oct/Nov 2009

41. A publicly traded technology firm is ranked 600th based on market capitalization on the Bombay Stock Exchange. The Chief Financial Officer is assessing the firm's compliance requirements for the financial year 2022-23. Regarding the Business Responsibility and Sustainability Report (BRSR) introduced by SEBI, what is the firm's regulatory obligation?

(A) The BRSR filing is strictly voluntary as the firm falls outside the top 500 listed entities.
(B) The BRSR filing is mandatory because the requirement applies to the top 1,000 listed entities.
(C) The BRSR filing is only required if the firm has active Green Masala Bonds in circulation.
(D) The BRSR filing is waived if the firm adheres to the ISO 14008 monetary valuation standard instead.

May/June 2023

42. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): Investors have the right to claim for damages in the event of a "green default."

Reason (R): A "green default" occurs when an issuer violates the environmental terms of an agreement, even if the bond's financial obligations were paid in full.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2018

43. When researchers evaluated the progress of green bonds in India by extracting data on bonds issued since January 21, 2015, what conceptual methodology was utilized to classify the dataset?

(A) They included only bonds officially designated as "Green" by the issuing sovereign entity in the formal title.
(B) They extracted bonds with India as the country of risk and checked if proceeds went to green projects.
(C) They isolated only those bonds verified by the Climate Bonds Initiative (CBI) within domestic exchanges.
(D) They extracted all municipal bonds and assumed a 50% allocation to environmental sustainability.

May/June 2007

44. An institutional entity in a non-special category state intends to install solar panels on its rooftops and is evaluating its financial outlays under current government schemes. What is the standard subsidy percentage covering the cost of installation, and what is the rate of the generation-based incentive if annual generation exceeds 1100kWh/1500kWh?

(A) 50 percent subsidy; Rs. 5 per unit
(B) 30 percent subsidy; Rs. 2 per unit
(C) 70 percent subsidy; Rs. 2 per unit
(D) 20 percent subsidy; Rs. 3 per unit

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between project types like transport and energy.

(B) All green projects yield exactly the same reduction in greenhouse gas emissions per dollar invested regardless of sector.

(C) Regulatory bodies require weightages exclusively to calculate the tax exemptions applicable to the bond issuer.

(D) Weightages are utilized solely to determine the credit rating of the issuing organization's conventional debt.

May/June 2025

58. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): Countries of the Nordic Region have established coalitions of local and regional governments that issue bonds on the financial market and distribute the proceeds to their sub-national members.

Reason (R): The United Kingdom Green Investment Bank plc was created as a coalition of local governments to provide partial credit and bond guarantees internationally.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2019

59. An Indian corporation is preparing to issue Green Debt Securities. The board of directors is deliberating whether they are legally obligated to appoint an independent third-party reviewer or certifier to verify that the targeted project assets qualify as eligible. According to the SEBI Circular, what is the regulatory requirement for this appointment in India?

(A) It is mandatorily required for all issuances exceeding a capitalization of Rs. 100 crore.

(B) It is completely prohibited to ensure reliance strictly on internal corporate audits.

(C) The issuer has the discretion to appoint an independent reviewer at their own convenience.

(D) It is mandatory only if the bonds are offered to foreign portfolio investors and institutional funds.

May/June 2009

60. Which of the following is NOT an economic or policy incentive implemented in India to promote environmentally friendly practices?

(A) A Production Linked Incentive Scheme (PLI) to encourage the production of high-efficiency modules.

(B) Mandatory application of differential reserve requirements for all banks holding green asset portfolios.

(C) A 'green car loans' programme by the State Bank of India featuring a cheaper interest rate and longer repayment window.

(D) Expansion of Priority Segment Lending (PSL) to cover the microgeneration sector of the renewable energy industry.

Oct/Nov 2011

61. Consider the following points outlining the Terms of Reference for the Task Force on Sustainable Finance set up by the Government of India in January 2021:

I. Defining the framework for sustainable finance in India.

II. Establishing the pillars for a sustainable finance roadmap.

III. Suggesting draft taxonomy of sustainable activities.

IV. Suggesting a framework of risk assessment by the financial sector.

Which of the above statement(s) is/are correct?

(A) I and II only

(B) II, III, and IV only

(C) I, III, and IV only

(D) I, II, III, and IV

May/June 2010

62. What specific overarching goal characterizes the "Green Deal" proposed by India as part of its national efforts towards green and sustainable financing?

(A) Becoming carbon neutral by the year 2070.

(B) Achieving 100% renewable energy reliance by the year 2030.

(C) Eradicating all forms of single-use plastics by the year 2040.

(D) Transitioning entirely to electric public transportation by the year 2050.

NODIA

(B) SEBI mandated that the BRSR reporting would be strictly compulsory for all listed entities immediately upon the issuance of its May 2021 circular.
(C) The Ministry of Corporate Affairs (MCA) issued the Voluntary Guidelines on Corporate Social Responsibility in 2018.
(D) The filing of the Business Responsibility Report (BRR) containing ESG disclosures was first introduced for listed entities in 2012.

May/June 2005

52. Identify the correct pair regarding international regulatory infrastructure and the corresponding country.
(A) Applying credit restrictions to businesses based on environmental compliance since 2006 - Lebanon
(B) Implementing a differential reserve requirement policy for commercial banks - China
(C) Mandatory biannual reporting of Corporate Social Responsibilities (CSR) by commercial banks since 2008 - Brazil
(D) Energy Transition Law making climate risk reporting mandatory for asset owners - France

Oct/Nov 2022

53. Arrange the following milestones of public policy regarding green finance in India in chronological order of their inception:
1. Establishment of the Climate Change Finance Unit (CCFU).
2. SEBI mandated the top 100 listed businesses to publish annual business responsibility reports.
3. Development of the National Action Plan on Climate Change (NAPCC).
4. RBI issued a notification titled "Corporate Social Responsibility, Sustainable Development and Nonfinancial Reporting - Role of Banks."

(A) 4, 3, 1, 2
(B) 3, 4, 2, 1
(C) 4, 1, 3, 2
(D) 1, 4, 3, 2

May/June 2018

54. Consider the following details required by SEBI to be disclosed by an issuer of Green Debt Securities on a continuing basis:
I. Utilisation of the proceeds of the issue verified by the report of an external auditor.
II. Details of unutilized proceeds.
III. List of project(s) to which proceeds have been allocated including a brief description and amounts disbursed.
IV. Qualitative performance indicators and quantitative performance measures of the environmental impact.

Which of these details are specifically required to be provided in the Annual Report?
(A) I and II only
(B) III and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

Oct/Nov 2016

55. As at end-March 2020, what was the approximate aggregate outstanding bank credit to the non-conventional energy sector under the RBI's green lending initiative?
(A) Rs. 15,000 crore
(B) Rs. 22,350 crore
(C) Rs. 36,543 crore
(D) Rs. 55,200 crore

May/June 2014

56. Identify the correct statement regarding the advantages of issuing green bonds.
(A) Strong investor demand might result in oversubscription and increased issuance amounts.
(B) Issuing green bonds inherently eliminates all transaction costs related to certification and reporting.
(C) Issuers completely bypass the risk of "green default" by utilizing general obligation frameworks.
(D) The investor base diversity decreases, thereby increasing the issuer's sensitivity to changes in bond demand.

Oct/Nov 2007

57. What conceptual reasoning explains why weightages along various SEBI categories are required to provide evidence of impact to investors?
(A) Emission impact differs significantly

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Oct/Nov 2025

45. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): There is concern among some stakeholders that a certification standard should be adapted to the conditions of the Indian context rather than relying solely on global standards.

Reason (R): A global standard for evaluation inherently captures all localized urban planning nuances and varying degrees of regional natural disaster dangers perfectly.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2012

46. Identify the correct statement regarding the advantages of issuing green bonds.

(A) Strong investor demand might result in oversubscription and increased issuance amounts.
(B) Issuing green bonds inherently eliminates all transaction costs related to certification and reporting.
(C) Issuers completely bypass the risk of "green default" by utilizing general obligation frameworks.
(D) The investor base diversity decreases, thereby increasing the issuer's sensitivity to changes in bond demand.

Oct/Nov 2014

47. An issuer of Green Debt Securities successfully raised funds primarily stating the environmental objective was to develop a sustainable water management facility. Later, the issuer diverted the proceeds to construct a commercial logistics hub that did not meet any documented environmental criteria, without updating the disclosures. Which specific responsibility mandated by SEBI has the issuer directly violated?

(A) Appointing an independent third-party certifier for continuous monitoring.
(B) Utilizing the proceeds only for the stated purpose(s), as disclosed in the offer document.
(C) Disclosing qualitative performance indicators in the half-yearly statements.
(D) Listing the debt securities on an international sustainable stock exchange.

May/June 2019

48. A central banking authority mandates that its commercial banks must devote at least 5% of their total credit specifically to the field of renewable energy and environmentally friendly technology. Which country established this exact regulatory precedent in 2015?

(A) India
(B) Bangladesh
(C) United Kingdom
(D) France

NODIA

Oct/Nov 2006

49. Which of the following categories is NOT explicitly specified as an eligible broad category for "Green Debt Securities" under the SEBI Circular definition?

(A) Clean coal technology and fossil fuel blending
(B) Climate change adaptation
(C) Sustainable land use including sustainable forestry and agriculture
(D) Biodiversity conservation

May/June 2021

50. Under the expanded Priority Sector Lending (PSL) programme by the Reserve Bank of India, what is the most appropriate maximum loan amount limit set for businesses operating in the renewable energy sector, as increased since September 4, 2020?

(A) Up to Rs. 10 lakh
(B) Up to Rs. 15 crore
(C) Up to Rs. 30 crore
(D) Up to Rs. 50 crore

Oct/Nov 2010

51. Identify the correct statement regarding the evolution of sustainability reporting for listed companies in India.

(A) ESG reporting started in 2015 directly with the mandatory introduction of the Business Responsibility and Sustainability Report (BRSR).

Oct/Nov 2024

63. Consider the following pledges made by the Government of India under its Nationally Determined Contribution (NDC):

I. Adopt a climate-friendly and a cleaner path than the one followed hitherto by others at corresponding level of economic development.
II. Reduce the emissions intensity of its GDP by 33 to 35% by 2030 from 2005 level.
III. Achieve about 40% cumulative electric power installed capacity from non-fossil fuel-based energy resources by 2030.
IV. Create an additional carbon sink of 2.5 to 3 billion tonnes of CO2 equivalent through additional forest and tree cover by 2030.
V. Mobilize domestic and new and additional funds from developed countries to implement mitigation and adaptation actions.

Which of the above statement(s) is/are correct?

(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

May/June 2017

64. Consider the following matching pairs regarding measures announced in the Indian Budget for 2022 to improve the Green Bonds market segment and their descriptions:

List I: Measures in Indian Budget 2022

P. Parivesh portal
Q. Sunrise Opportunities
R. Energy Transition and Climate Action
S. Sovereign Green Bonds

List II: Descriptions

1. Emphasised along with Solar Power.
2. Will be issued as part of the government's overall market borrowings for mobilizing resources for green infrastructure.
3. Included areas like Green Energy and Clean Mobility Systems to assist sustainable development.
4. Scope will be expanded to provide information to applicants regarding Green Clearances.

(A) P-4, Q-3, R-1, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

Oct/Nov 2005

65. An international investor group highlights concerns about tracking the deployment and impact of climate finance in India, noting the absence of a comprehensive domestic system analogous to those in Australia or the United States. To systematically overcome this information gap and reduce borrowing costs, what specific mechanism is suggested for development?

(A) A national measurement, reporting, and verification platform for tracking climate finance flows.
(B) A centralized Social Stock Exchange exclusively for microfinance NGOs.
(C) A mandatory tax exemption protocol for all foreign direct investments.
(D) A dual-recourse sovereign bond mechanism structured purely on fiat currency and domestic debt servicing.

May/June 2020

66. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): The Reserve Bank of India (RBI) joined the Central Banks and Supervisors Network for Greening the Financial System (NGFS) as a member in April 2021.

Reason (R): The RBI joined in order to learn from and contribute to the global effort towards enhancing the role of the financial system to manage risks in the context of sustainable development.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

NQDIA

Oct/Nov 2015

67. Consider the following statements regarding the sections of the Business Responsibility and Sustainability Report (BRSR):

I. Section A contains details of the listed entity, products/services, operations, employees, and CSR.
II. Section B contains questions related to policy

and management processes, governance, leadership, and oversight.

III. Section C classifies Key Performance Indicators (KPIs) into Essential Indicators (Mandatory) and Leadership Indicators (Voluntary).

Which of the above statement(s) is/are correct?

(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2013

68. Consider the following matching pairs regarding regulatory bodies/frameworks and their corresponding actions or recommendations regarding climate-related financial risks:

List I: Regulatory Bodies/Frameworks

P. Basel Committee (BCBS)
Q. NGFS Guide for Supervisors
R. European Central Bank (ECB)
S. UK Regulators

List II: Actions/Recommendations

1. Asks significant institutions to inform of any divergences of their practices from supervisory expectations from end-2020.
2. Are requiring firms to reflect ESG factors in their risk frameworks but are not proposing new rules, leaving detailed guidance to the industry.
3. Published a stocktake report in April 2020 noting most members are undertaking regulatory initiatives on climate-related financial risks.
4. Sets out five non-binding recommendations intended to co-ordinate a common regulatory response to climate-related risks.

(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-1, Q-2, R-3, S-4
(D) P-2, Q-1, R-4, S-3

Oct/Nov 2021

69. A large capital company in India is finalizing its annual financial reporting. Under the provisions of the Companies Act of 2013, the board allocates a specific percentage of its annual profits towards Corporate Social Responsibility (CSR) initiatives, covering topics like environmental sustainability and ecological protection. What exact percentage of the annual profits is statutorily required for this donation?

(A) 1%
(B) 2%
(C) 3%
(D) 5%

May/June 2024

70. The Department of Economic Affairs launched the Sustainable Finance Collaborative in August 2020 to host dialogues on barriers to deploying new modes of financing, such as impact investing, and the role of blended finance instruments. With which international organization did the Department form a partnership for this specific Collaborative?

(A) International Monetary Fund (IMF)
(B) World Bank
(C) United Nations Development Programme (UNDP)
(D) Global Sustainable Investment Alliance

Oct/Nov 2008

71. Which structural entity was explicitly set up by the RBI in May 2021 within its Department of Regulation to lead efforts, suggest strategies, and evolve a regulatory framework in the area of climate risk and sustainable finance?

(A) Sustainable Finance Group (SFG)
(B) Climate Change Finance Unit (CCFU)
(C) Working Group on Social Stock Exchanges (WG-SSE)
(D) Technical Group on Green Borrowings (TGGB)

May/June 2006

72. Consider the following matching pairs regarding the specific metrics and their corresponding resolutions from the Paris Agreement (COP21) and COP26:

List I: Metric

P. Share of non-fossil fuel-based electricity (COP21)
Q. Renewable energy generation (COP21)
R. Carbon intensity of the economy (COP26)
S. Net zero emissions (COP26)

List II: Resolution

1. 175 GW by 2022
2. Less than 45% by 2030
3. By the year 2070
4. 40% by 2030

(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-4, R-3, S-2
(C) P-2, Q-3, R-1, S-4

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(D) P-3, Q-2, R-4, S-1

Oct/Nov 2017

73. A financial firm operating in London is updating its enterprise risk management framework to account for climate change. The firm's compliance officers are waiting for a prescriptive, granular rulebook from the domestic authority detailing exactly how to weight ESG factors in credit scoring. Based on the documented stance of UK regulators, what should the compliance officers expect?

(A) A comprehensive rulebook issued immediately by the central authority with strict financial penalties for any non-compliance.

(B) A directive to defer all ESG integration until the NGFS finalizes global capital adequacy ratios.

(C) A mandate to transfer all high-carbon asset exposures to a government-backed bad bank.

(D) An instruction to reflect ESG factors in their risk frameworks without new rules, leaving guidance to the industry.

May/June 2008

74. To address existing frictions and develop the market infrastructure for green instruments in a large domestic market, which combination of actions is cited as highly important?

(A) Eliminating all regulatory oversight and allowing the market to self-regulate organically through competition.

(B) Restricting the issuance of green bonds exclusively to sovereign entities and barring private corporations.

(C) Coordination between investment and environmental policies within a national and state-level framework.

(D) Transitioning entirely to offshore green bonds to bridge the capital gap without domestic intervention.

Oct/Nov 2013

75. Consider the following statements regarding the improvement of the Indian Green Bonds market segment:

I. There is potential for the involvement of national development banks to create projects that include components of aggregation and credit improvement.

II. Developing business models that give price benefits to issuers can be achieved by combining financial support from the Green Climate Fund with other sources of funding.

Which of the above statement(s) is/are correct?

(A) I only

(B) II only

(C) Both I and II

(D) Neither I nor II

May/June 2015

76. Consider the following matching pairs regarding the specific criteria evaluated in ESG investing and their corresponding considerations:

List I: ESG Criteria

P. Environment

Q. Social

R. Governance

S. ESG related reports

List II: Considerations

1. Diversity in leadership, executive pay, internal controls, and shareholder rights.
2. Carbon footprint, toxic chemicals in manufacturing, and sustainability efforts in supply chain.
3. LGBTQ+ equality, racial diversity, inclusion programs, and relationships with communities.
4. Provide stakeholders with comparable information of the top companies to help make informed investment choices.

(A) P-2, Q-3, R-1, S-4

(B) P-3, Q-2, R-4, S-1

(C) P-1, Q-4, R-2, S-3

(D) P-4, Q-1, R-3, S-2

Oct/Nov 2012

77. A portfolio manager is analyzing a subset of premium Indian equities. The manager notes that roughly 40% of the private enterprises within this specific group possess a large favourable record regarding ESG statistics, utilizing frameworks like the BRSR. According to estimations regarding sustainable reporting, which prominent stock index represents this group?

(A) BSE SENSEX

(B) S&P BSE 100 ESG Index

(C) MSCI ESG India

(D) NIFTY 50

NODIA

May/June 2011

78. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): According to a UNDP estimate, India requires an estimated USD 2.6 trillion to realise targets under the sustainable development goals by 2030.

Reason (R): The government alone cannot generate or deploy such massive resources for this purpose, thereby requiring collective efforts of both the public and private sectors.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2020

79. Consider the following primary areas of focus developed in India to assist in accelerating environmentally friendly finance:

I. Establishing a transparent and well-defined taxonomy to pave the way for green projects and keep transaction costs to a minimum.
II. Establishing a system for the valuation of carbon in India.
III. Utilizing national investments by including so-called "Green Infrastructure Investment Trusts" (InvITs).

Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2022

80. Identify the incorrect statement regarding the impact of climate change risk on equity markets.
(A) The IMF Global Financial Stability Report of April 2020 indicated that climate change disasters are projected to be more frequent and more severe.
(B) High levels of insurance penetration and sovereign financial strength can help preserve financial stability in the face of climatic disasters.
(C) Better disclosures and stress testing for financial firms can help preserve financial stability.
(D) Aggregate equity valuations as of 2019 fully and accurately reflected the predicted changes in physical risk under various climate change scenarios.

Oct/Nov 2023

81. Consider the following international groups and platforms:

I. G-20 Sustainable Finance Working Group.
II. Financial Stability Board's Working Group on Climate Risk.
III. Task Force on Climate-related Financial Risks set up by the BCBS.
IV. International Platform on Sustainable Finance.

In which of these is the Reserve Bank of India (RBI) represented?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

May/June 2016

82. Identify the incorrect statement regarding the comparative resolutions between COP21 (2016) and COP26 (2021) for India.
(A) At COP21, India pledged to become carbon neutral and achieve net zero emissions by the year 2050.
(B) At COP26, India pledged to meet 50% of the country's energy requirements from RE sources by 2030.
(C) At COP26, India pledged to raise the non-fossil fuel-based energy capacity of the country to 500 GW by 2030.
(D) At COP26, India pledged to reduce the total projected carbon emission by one billion tons by 2030.

Oct/Nov 2009

83. Consider the following statements regarding the challenges of borrowing cost and information asymmetry:

I. Maturity-mismatches in green projects and their financing increase the cost of borrowing due to high up-front costs and long-term cost-saving features.
II. The absence of a universal definition of green finance often results in "green-washing", wherein investors receive false

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signals about green bonds.

Which of the above statement(s) is/are correct?

(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

May/June 2023

84. Identify the correct statement concerning the programmatic efforts by the Indian government to encourage environmentally friendly practices.

(A) The "Perform Achieve and Trade" programme strictly prohibits carbon trading mechanisms.
(B) The RBI has explicitly barred all lending for renewable projects by corporations to mitigate perceived systemic credit risk.
(C) The government has incorporated carbon trading into its overall policy framework.
(D) The BRSR framework completely ignores worldwide ESG standards like those developed by the Global Reporting Initiative (GRI).

May/June 2007

85. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): The ECB expects significant institutions to adapt their practices regarding climate-related risks, yet it acknowledges that methodologies and tools used to address them are currently evolving and expected to mature over time.

Reason (R): The NGFS guide provides a snapshot of the state-of-play in several countries and mandates strict, binding quantitative capital surcharges on all sovereign bonds.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2025

86. An environmental policy researcher is evaluating India's historical pledges submitted at the COP21 in Paris. The researcher notes that India committed to a specific reduction target for the emissions intensity of its GDP by 2030, benchmarked against the levels recorded in 2005. What is the exact percentage range of this reduction target?

(A) 15 to 20%
(B) 25 to 30%
(C) 33 to 35%
(D) 40 to 45%

May/June 2012

87. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): The government issuing a sovereign green bond would send a clear signal of its support and interest in green bonds.

Reason (R): Leveraging national development banks like SIDBI and NABARD can channel money toward unexplored areas of credit improvement.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2014

88. Identify the correct statement concerning the borrowing cost and financial health metrics associated with green bonds in India.

(A) The cost of issuing green bonds has universally remained lower than vanilla debt bonds across all maturities.
(B) Stock prices of entities that generally focused on ESG-related initiatives are the ones that outperformed others in the market.
(C) The average coupon rate for INR denominated green bonds issued since 2015 with maturities between 5 to 10 years has generally remained lower than corporate bonds.
(D) Private sector issuers of green bonds, on average, reported a higher debt-to-assets ratio compared to non-issuers of green bonds.

business. When a venture capitalist provides early-stage seed money to a start-up in exchange for an ownership stake, the instrument used is equity. Unlike debt or grants, equity involves shared ownership and risk, allowing the investor to benefit directly from the future growth and success of the enterprise.

26. (C) Assertion (A) is true, but Reason (R) is false.
Sustainable finance is the most inclusive term as it integrates environmental, social, and economic factors into investment activities. While green finance is a critical component, it specifically focuses on environmental aspects and climate finance. According to certain conceptual frameworks, green finance excludes broader social factors. Therefore, while sustainable finance encompasses green finance, the latter does not comprehensively include all social and economic pillars.

27. (A) Green Masala Bonds
Masala bonds are Indian Rupee-denominated debt instruments issued in international markets. When these bonds are specifically designated to fund environmentally friendly projects, such as wind energy, they are known as Green Masala Bonds. In this arrangement, international investors assume the currency exchange rate risk, as the principal and interest are repaid in rupees, despite the bonds being issued outside India.

28. (D) I, II, and III
ISO 14097 is designed to help investors and finance managers navigate climate-related risks and opportunities. Its goals include providing the data necessary for making defensible decisions to eliminate climate risks and facilitating the transition to a low-carbon economy. By encouraging investment in climate-positive prospects and reducing financial exposure to climate dangers, the standard supports broader global climate mitigation and adaptation efforts.

29. (A) P-2, Q-4, R-3, S-1
Green bonds are categorized by their repayment structures and asset ownership models. Organization-guaranteed bonds utilize the issuer's total cash flow for repayment. Asset-backed bonds rely on a special purpose entity where creditworthiness depends on project revenue. Hybrid structures include dual-recourse models where lenders have claims on specific assets and the issuer's general assets in the event of a default or bankruptcy.

30. (D) It operates as a system including interactions between people and society.
In the context of green financing, the environment is understood as more than just a physical backdrop for economic activity. It operates as a complex system that includes continuous interactions between human activity, society, and natural resources. This perspective ensures that green finance strategies account for how environmental changes affect people and how societal development, in turn, impacts the natural world.

31. (A) P-3, Q-4, R-1, S-2
Countries have adopted various regulatory measures to promote green finance. China implemented credit restrictions based on environmental compliance in 2006, while Lebanon introduced a differential reserve requirement policy for banks in 2010. Brazil integrated environmental factors into its capital adequacy assessment process. Meanwhile, Bangladesh established a revolving fund to distribute low-interest loans to green businesses and renewable energy initiatives.

32. (A) P-2, Q-4, R-3, S-1
SEBI defines "Green Debt Securities" across several broad categories of eligible projects. Clean transportation focuses on mass or public transit systems. Sustainable water management includes drinking water and water recycling. Energy efficiency involves developing efficient or green buildings. Sustainable waste management covers activities like recycling and waste-to-energy projects. Each category is designed to ensure that funds are directed toward verified environmental benefits.

33. (B) Transaction costs associated with labelling, certification, and reporting.
Investing in green bonds presents challenges such as market infancy, limited legal enforcement of green integrity, and the potential for reputational damage due to "greenwashing." While transaction costs for labelling, certification, and reporting are significant financial considerations, they are typically viewed as hurdles for the issuer rather

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(A) Transition risk
(B) Liability risk
(C) Chronic physical risk
(D) Acute physical risk

May/June 2018

95. Consider the following recommendations derived from the RBI survey for financial institutions:

I. Put in place a system for monitoring programmes related to climate risk at the board or senior management level.
II. Have a complete understanding of physical, transition, and liability risks to make portfolios more resistant.
III. Align climate-related financial disclosures with a framework that is internationally acknowledged.
IV. Facilitate the expansion of green lending by mobilising fresh capital or establishing incremental lending targets.
V. Make major investments in the capacity building of employees regarding climate risk, ESG, and sustainable finance.

Which of the above statement(s) is/are correct?
(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2016

96. Consider the following observations derived from the results of the RBI survey on climate risk and sustainable finance:

I. Board-level engagement on climate risk and sustainable finance was found to be inadequate.
II. A majority of the banks did not have a separate business unit or vertical for sustainability and ESG-related initiatives.
III. Almost all surveyed banks recognized the urgency of the issue and considered climate-related financial risks a material threat.
IV. Physical and transition risks were seen as the main sources of climate-related risks.
V. Most banks felt that the available data was insufficient for an appropriate assessment of climate-related financial risks.

Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

NODIA

May/June 2014

97. Identify the incorrect pair regarding the types of risks to banks emanating from climate change.
(A) Liability risks - The process of adjustment towards a low-carbon economy.
(B) Acute physical risks - Extreme weather events such as heatwaves, landslides, and floods.
(C) Chronic physical risks - Longer-term gradual shifts such as changes in precipitation, ocean acidification, and rising sea levels.
(D) Indirect effects of climate change - Loss of ecosystem services, desertification, and water shortage.

Oct/Nov 2007

98. Identify the incorrect statement regarding the takeaways and recommendations of the RBI survey.
(A) Banks ought to give some thought to incorporating Key Performance Indicators (KPIs) on climate risk into the evaluation of senior management.
(B) Banks should avoid allocating specific resources to the field of sustainable finance to prevent operational distractions.
(C) Financial institutions need to devise a plan for mitigating climate risk and incorporate it into their overall framework for risk management.
(D) Financial institutions may take into consideration collaborating on a schedule to get toward net-zero emissions regarding their own operations.

May/June 2025

99. Consider the following statements regarding the actions banks are taking towards a low-carbon environment in banking operations, according to the RBI survey:

I. Most banks have either taken measures or have plans to decrease the absolute carbon emissions arising from their operations.
II. Most banks have plans to increase the proportion of renewable energy in their total sourced electricity.
III. A few banks have either announced time-bound plans or plan to come up with a roadmap over the next 12 months to become carbon-neutral.

Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2019

100. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): Based on the responses received from stakeholders, the RBI is expected to issue comprehensive guidelines on the issues of Climate Risk and Sustainable Finance.

Reason (R): Sustainable Finance is considered a critical part of the entire gamut of Climate Change, necessitating structural regulatory direction.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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ANSWERS

1. (A) P-3, Q-4, R-1, S-2
ISO standards provide specific frameworks for managing sustainable finance and environmental impacts. ISO 32210 establishes a framework for sustainable finance principles, while ISO 14007 focuses on environmental costs and benefits. ISO 14008 offers guidance on the monetary valuation of environmental impacts, and ISO 14097 facilitates assessing and reporting investments specifically related to climate change risks and actions.

2. (A) I only
The Social Stock Exchange is designed to facilitate funding for entities creating social impact. Both non-profit organizations and for-profit social enterprises are permitted to list and participate on this platform. While the SSE operates under the broader financial system, the primary regulatory oversight for onboarding and governance of these entities is managed by SEBI rather than the RBI.

3. (C) Green finance excludes social factors but includes climate finance.
The United Nations Environment Programme distinguishes various financing types based on their specific objectives. Green finance acts as a bridge, incorporating climate finance to address environmental issues but excluding social factors. In contrast, sustainable finance is a more comprehensive category that integrates environmental, social, and economic considerations into investment decision-making processes to support long-term and inclusive global development goals.

4. (C) Building, energy, transport, and water
The Climate Bonds Initiative provides a robust certification scheme to standardize and validate green debt instruments globally. This process increases investor confidence by ensuring proceeds meet rigorous environmental criteria. Currently, these certificates are obtainable for projects within specific utility sectors, including building, energy, transport, and water. These sectors are prioritized due to their significant impact on global decarbonization efforts.

5. (B) To receive instructions on how to use those values for cost and benefit analyses.
ISO 14007 provides a specialized framework for organizations to determine and communicate environmental costs and benefits. Once an entity has established monetary values for its environmental consequences using standards like ISO 14008, it utilizes ISO 14007 for specific guidance. This standard provides instructions on how to integrate those values effectively into comprehensive cost-benefit analyses for better decision-making.

6. (A) I only
The International Platform on Sustainable Finance was established to scale up the mobilization of private capital towards environmentally sustainable investments. India became a founding member of this platform in October 2019. While the member jurisdictions represent a significant portion of the global population and gross domestic product, they do not collectively account for over eighty percent of global greenhouse emissions.

7. (B) Sustainable finance
Within the hierarchy of environmentally and socially conscious funding, different terms apply to specific scopes. Climate finance focuses on mitigation and adaptation, while green finance covers broader environmental aspects. However, sustainable finance is the most inclusive designation. it encompasses all forms of financing activity that support sustainable development goals, including environmental protection, social inclusion, and robust institutional governance practices.

8. (B) Proceeds are used exclusively for green projects, assets, or activities.
Green bonds function similarly to conventional bonds in terms of financial structure but differ significantly in their application. The defining characteristic is that the proceeds must be used

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May/June 2019

89. What is the most appropriate predicted outcome of introducing a price on carbon in India, as outlined in the national efforts towards green financing?

(A) It will completely eliminate the issuance of vanilla debt products by private corporations and public sector undertakings.

(B) Climate change costs will more likely be factored into mainstream investment decisions.

(C) It will force all commercial banks to immediately divest from fossil fuel-based lending.

(D) It will automatically grant sovereign status to all domestic green bonds listed on international exchanges.

Oct/Nov 2006

90. Consider the following public policy measures suggested to address the shortcomings of the green finance market:

I. Deepening of the corporate bond market.

II. Standardisation of green investment terminology.

III. Consistent corporate reporting.

IV. Removing information asymmetry between investors and recipients.

V. Engaging with industry bodies expanding 'green buildings' to assess their financial and operational needs.

Which of the above statement(s) is/are correct?

(A) I, II, and III only

(B) II, III, IV, and V only

(C) I, III, IV, and V only

(D) I, II, III, IV, and V

May/June 2021

91. Consider the following matching pairs regarding the themes of the questions listed in the RBI's July 2022 Discussion Paper on Climate Risks and Sustainable Financing and their specific content areas:

List I: Themes of Questions

P. Immediate priorities

Q. Regulatory policy framework

R. Integration challenges

S. Stress testing

List II: Content Areas

1. Developing a scenario analysis framework and analyzing potential effects.
2. Shaping the policy discourse and actions fostering a resilient system.
3. Keeping in view aspects such as demography and geography in an emerging market.
4. Integrating the framework in Governance, Strategy and Risk Management.

(A) P-1, Q-4, R-3, S-2

(B) P-2, Q-3, R-4, S-1

(C) P-3, Q-2, R-1, S-4

(D) P-4, Q-1, R-2, S-3

Oct/Nov 2010

92. Which of the following is NOT a finding regarding climate-related financial disclosures and capacity building as revealed by the RBI survey?

(A) Most banks are looking at capacity building to better understand the financial implications of climate risk.

(B) Most banks felt that the available data was currently insufficient for performing an appropriate financial assessment.

(C) Banks have successfully aligned their disclosures with international frameworks like TCFD.

(D) The processes and methodologies to measure and monitor climate-related financial risks were not sufficiently developed.

May/June 2005

93. In January 2022, the RBI's Sustainable Finance Group (SFG) carried out a survey to assess the approach, level of preparedness, and status of climate risk and sustainable finance. To ensure a representative sample of the banking sector's leading entities, how many scheduled commercial banks were covered in this survey?

(A) 12 public sector banks only

(B) 16 private sector banks only

(C) 34 leading scheduled commercial banks

(D) 100 top listed financial institutions

Oct/Nov 2022

94. A commercial bank is analyzing its loan portfolio heavily exposed to coastal real estate developments. The risk management team identifies that rising sea levels, ocean acidification, and gradual average temperature increases over the next two decades will significantly degrade the value of these collateral assets. According to the RBI classification of climate risks, which specific type of risk is the bank directly evaluating?

NODIA

17. (D) I, II, III, and IV
The Green Bond Principles provide a voluntary framework for transparency and integrity in the green bond market. These principles recommend four core components: the usage of proceeds, the process for project evaluation and selection, the management of proceeds, and regular reporting. Adherence to these components ensures that investors receive clear information regarding the environmental impact and financial management of the bonds.

18. (A) ISO/TC 322 - Sustainable finance
ISO technical committees are responsible for developing international standards across various domains. ISO/TC 322 is specifically dedicated to sustainable finance, aiming to integrate sustainability considerations into financial decision-making. Other committees like ISO/TC 207 focus on environmental management, while ISO/TC 309 handles governance of organizations. Correct identification of these committees is essential for understanding the global standardization landscape for sustainable investment.

19. (A) 2, 3, 1, 4
India's regulatory framework for sustainable finance evolved through several key milestones. SEBI first issued guidelines on green bonds in 2017. This was followed by the establishment of a Working Group on Social Stock Exchanges in 2019. The group submitted its report in June 2020, and subsequently, a technical group was formed in September 2020 to offer detailed suggestions on social auditing.

20. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Green financing addresses environmental, social, and economic pillars essential for a sustainable future. The urgency stems from the measurable impact of human activity on nature and the resulting risks to human society. Because environmental changes directly influence economic and social stability, addressing these interactions through targeted finance is necessary to ensure resilience and long-term sustainability across all global economic sectors.

21. (C) External Commercial Borrowings (ECB) route
Indian companies can raise international capital for green projects through various regulatory pathways. The External Commercial Borrowings route, regulated by the Reserve Bank of India, has been liberalized to permit firms to raise finance via green bonds from foreign lenders. This mechanism allows domestic renewable energy companies to access global liquidity and benefit from potentially lower interest rates for constructing high-efficiency modules.

22. (B) These flows account for less than five percent of global assets under management.
Sustainable and green investments have seen significant global growth. Reports from the Global Sustainable Investment Alliance indicate that funds in these categories reached over thirty trillion dollars, representing an increase of thirty-four percent from 2016. In several regions, these flows account for a substantial portion of tracked assets, far exceeding the five percent threshold for global assets under management.

23. (D) It is the global reference for valuing an organization's environmental impacts.
ISO 14008 serves as an international standard providing a framework for the monetary valuation of environmental impacts and related environmental aspects. It acts as a global reference for organizations to quantify the economic consequences of their environmental footprint. This quantification helps businesses integrate environmental considerations into their financial reporting, strategic planning, and overall sustainability assessments using standardized and recognized methodologies.

24. (C) Covered bond
Green bonds feature various structures to manage risk and repayment. A hybrid bond that utilizes a dual-recourse structure is commonly referred to as a covered bond. In this arrangement, the investor has a claim on a specific pool of assets as well as a general claim on the issuer's balance sheet. This dual layer of protection enhances the security for bondholders.

25. (B) Equity
Financing for green projects involves different instruments depending on the stage of the

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exclusively for projects, assets, or activities that provide clear environmental benefits. This "use-of-proceeds" requirement necessitates rigorous tracking and reporting to ensure the funds contribute to sustainability goals rather than general operations.

9. (B) Asset Backed Bond
Green bonds are categorized by their repayment structures and asset ownership models. In an asset-backed bond, the financed project is typically held by a special purpose vehicle. Repayment to lenders is made exclusively from the revenue generated by that specific asset. This structure ensures that the issuer's other cash flows are insulated, making the creditworthiness dependent on project performance.

10. (C) Governance and culture, strategy alignment, and objectives.
ISO 32210 is designed to help financial organizations integrate sustainability into their core operations. The standard is structured concentrically, requiring entities to establish a strong foundation before moving to external activities. Initially, an organization must focus on internal elements, including governance and culture, strategy alignment, and defining sustainability objectives. These core components provide the necessary framework for subsequent performance.

11. (D) I, II, III, IV, and V
Advantages of green bonds include accessing institutional investors and matching long-term project durations. Issuing these bonds enhances corporate reputation and increases transparency. Furthermore, the efficient book-building process offers cost benefits, while the proceeds help transition traditionally carbon-intensive sectors toward greener alternatives. These factors collectively drive the growth and acceptance of the green bond market for achieving global sustainable development.

12. (C) Climate finance
Under the United Nations Environment Programme classifications, different terms represent specific subsets of environmental funding. When a financing framework strictly addresses the mitigation of greenhouse gas emissions or the expansion of renewable energy without broader social considerations, it is classified as climate finance. This specific category focuses on the financial resources required to address climate change and its various impacts.

13. (A) Retail investors - Green loans
Various financial entities provide specialized green finance instruments to support environmental projects. Foundations and NGOs often offer project-specific grants, while development financial institutions provide credit enhancement guarantees. Commercial banks are primary sources for green loans. However, retail investors are generally the suppliers of capital or recipients of financial services rather than the direct providers of institutional green loans to others.

14. (B) I, III, and IV
The ISO 14030 series provides guidance on green debt instruments to assist both borrowers and financiers. It emphasizes evaluating the environmental performance of projects and managing environmental aspects through specific data. Key concepts include materiality and the "do no significant harm" principle. The standard is versatile and not limited to large corporations, making it applicable to various entities seeking green finance.

15. (D) Sixth
India has emerged as a significant player in the green bond market within Asia. According to data from the Climate Bonds Initiative for 2021, the nation achieved the sixth position in the Asia-Pacific region for total green bond issuance volume. This ranking highlights the country's growing commitment to mobilizing capital for environmentally beneficial infrastructure and renewable energy projects on a large scale.

16. (B) 1.5 degrees Celsius
The Intergovernmental Panel on Climate Change provides scientific assessments regarding global warming and its impacts. In August 2021, the panel's findings indicated that global temperatures are expected to reach or exceed one and a half degrees Celsius of warming within the next twenty years. This benchmark serves as a critical indicator for international efforts to mitigate climate change through rapid decarbonization.

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than inherent disadvantages for the investor seeking to hold these specific sustainable debt instruments.

34. (D) The SEBI criteria apply uniformly to every project, ensuring identical fundraising success across the board.
SEBI guidelines provide a structured framework for issuing green bonds, aligning with international standards. However, the success of fundraising depends on various factors, including the specific impact and viability of each project. Not all environmentally friendly initiatives are directly comparable or equally successful in the market, meaning that the regulatory framework does not guarantee identical financial outcomes for all bond issuers.

35. (B) Book building
In the green bond market, issuers utilize specific processes to gauge market interest. Book building is the conceptual term for generating, capturing, and recording investor demand for a bond issue. This process allows issuers to determine an appropriate price and volume, which can lead to reduced marketing and roadshow costs by identifying strong demand before the final issuance of the debt.

36. (A) An investment strategy balancing environmental, social, and governance factors with financial metrics.
ESG investing represents a modern approach to financial management where non-financial factors are integrated into the investment process. It is an investment strategy that seeks to balance environmental protection, social responsibility, and robust corporate governance with traditional financial metrics. This methodology helps investors identify sustainable companies and manage long-term risks that are often ignored by conventional short-term financial analysis models.

37. (A) The market has many instruments available for hedging green loan duration risks.
The financial sector faces a maturity mismatch when banks use short-term liabilities to fund long-term green projects. This creates refinancing risks for businesses and limits banks' lending capacity. While issuing medium-term green bonds can alleviate these limitations, a significant challenge remains the lack of adequate market instruments for hedging duration risks associated with green loans in many developing financial markets.

38. (A) I only
Google Trends is a tool used to evaluate public awareness of various topics, including green finance. The data is normalized, representing the proportion of searches for a specific term relative to the total number of searches in a given area and time. Analyzing absolute search numbers is less accurate for comparing interest over time, as it does not account for changing search volumes.

39. (D) I, II, and III
SEBI regulations mandate comprehensive disclosure requirements in the offer documents for Green Debt Securities. Issuers must provide a clear statement regarding the environmental objectives of the bond issue. Furthermore, they must detail the decision-making process for determining project eligibility and outline the specific systems or procedures used for tracking and managing the deployment of the proceeds to ensure transparency.

40. (D) Lebanon
To incentivize sustainable lending, some national regulators implement micro- and macro-prudential policies. Since 2010, Lebanon has utilized a differential reserve requirement policy. This allows commercial banks that maintain a high proportion of loans for environmentally friendly projects in their portfolios to hold a smaller amount of cash reserves, effectively rewarding banks for their commitment to green financing and environmental sustainability.

41. (B) The BRSR filing is mandatory because the requirement applies to the top 1,000 listed entities.
SEBI introduced the Business Responsibility and Sustainability Report to enhance ESG disclosures among listed companies in India. While initially voluntary, the requirement became mandatory for the top one thousand listed entities by market capitalization starting from the financial year 2022-23. Therefore, a technology firm ranked six hundredth is legally obligated to comply with these comprehensive sustainability reporting requirements in their annual filings.

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74. (C) Coordination between investment and environmental policies within a national and state-level framework.
Developing robust market infrastructure for green instruments requires a multi-faceted approach. High importance is placed on the coordination between investment and environmental policies within both national and state-level frameworks. This alignment ensures that regulatory incentives and sustainable development goals are consistent, reducing market frictions and providing a stable environment for both private and public sector green bond issuances.

75. (C) Both I and II
Improving the Indian green bond market involves leveraging several financial mechanisms. National development banks can play a crucial role by creating projects that utilize aggregation and credit enhancement to attract investors. Additionally, combining financial support from global entities like the Green Climate Fund with other funding sources can help develop business models that offer tangible price benefits to bond issuers.

76. (A) P-2, Q-3, R-1, S-4
ESG investing evaluates companies based on three core pillars. Environmental criteria focus on carbon footprints and supply chain sustainability. Social factors assess diversity, inclusion programs, and community relationships. Governance examines leadership diversity, executive compensation, and internal controls. Standardized reporting provides stakeholders with comparable data to make informed choices, ensuring that investments align with broader ethical and sustainability-related performance standards.

77. (D) NIFTY 50
Analysis of premium Indian equities shows a significant trend toward sustainability reporting. Within the NIFTY 50 index, approximately forty percent of the constituent private enterprises possess a favorable record regarding ESG statistics using the Business Responsibility and Sustainability Report framework. This indicates that the largest listed entities in India are increasingly integrating environmental, social, and governance considerations into their core business operations.

78. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Reaching sustainable development goals by 2030 requires substantial financial resources, estimated at over two trillion dollars for India. The government cannot meet this requirement through public funds alone. Therefore, a collaborative approach involving both public and private sector investments is essential. Mobilizing diverse capital sources through green and sustainable finance mechanisms is critical to bridging this significant national investment gap.

79. (D) I, II, and III
India has identified several primary areas to accelerate green finance and support its environmental goals. These include establishing a transparent taxonomy to minimize transaction costs and developing a system for carbon valuation. Additionally, the strategy involves utilizing national investments through innovative structures like Green Infrastructure Investment Trusts to channel capital effectively into large-scale renewable and sustainable infrastructure projects.

80. (D) Aggregate equity valuations as of 2019 fully and accurately reflected the predicted changes in physical risk under various climate change scenarios.
Climate change impacts financial stability through physical and transition risks. While insurance penetration and better disclosures help mitigate these risks, market valuations have historically struggled to price them accurately. Reports indicate that, as of 2019, aggregate equity valuations did not fully reflect the predicted changes in physical risk across various scenarios, suggesting that climate-related dangers were not adequately factored into market prices.

81. (D) I, II, III, and IV
The Reserve Bank of India actively participates in several international groups to manage climate-related financial risks. The central bank is represented in the G-20 Sustainable Finance Working Group, the Financial Stability Board's group on climate risk, and the Basel Committee's task force. Additionally, it is a member of the International Platform on Sustainable Finance,

50. (C) Up to Rs. 30 crore
The Reserve Bank of India utilizes the Priority Sector Lending program to encourage bank lending to critical sectors. Since September 2020, the limits for renewable energy loans have been significantly increased. Under the expanded guidelines, businesses in the renewable energy sector can access loans up to thirty crore rupees, facilitating larger investments in solar, wind, and other green power generation projects.

51. (D) The filing of the Business Responsibility Report (BRR) containing ESG disclosures was first introduced for listed entities in 2012.
India has progressively enhanced sustainability reporting for corporate entities over the last decade. ESG disclosures were first formalized in 2012 when SEBI introduced the Business Responsibility Report for the top one hundred listed companies by market capitalization. This requirement later evolved into the more comprehensive Business Responsibility and Sustainability Report, reflecting a global shift toward mandatory and standardized environmental and social reporting.

52. (D) Energy Transition Law making climate risk reporting mandatory for asset owners - France
Countries have implemented diverse regulatory infrastructures to address climate risks. In France, the landmark Energy Transition Law made climate risk reporting mandatory for asset owners and institutional investors. While other nations like China and Lebanon have used credit restrictions or reserve requirements, the French approach emphasized transparency and disclosure, requiring financial institutions to explain how they integrate ESG factors into their investment strategies.

53. (A) 4, 3, 1, 2
India's green finance policy milestones began with the 2007 RBI notification on the role of banks in sustainable development. This was followed by the National Action Plan on Climate Change in 2008. The Climate Change Finance Unit was established in 2011, and in 2012, SEBI mandated the top one hundred listed businesses to publish annual business responsibility reports.

54. (B) III and IV only
SEBI requires issuers of Green Debt Securities to provide specific ongoing disclosures to ensure transparency for investors. In the Annual Report, issuers must include a list of projects to which proceeds have been allocated, along with brief descriptions and disbursed amounts. Additionally, they must provide qualitative and quantitative performance indicators to demonstrate the environmental impact achieved through the funded projects.

55. (C) Rs. 36,543 crore
Under the green lending initiatives of the Reserve Bank of India, credit flow to the renewable energy sector has been tracked to monitor progress. As of the end of March 2020, the aggregate outstanding bank credit to the non-conventional energy sector reached approximately thirty-six thousand five hundred forty-three crore rupees. This figure reflects the significant role of the banking sector in financing India's energy transition.

56. (A) Strong investor demand might result in oversubscription and increased issuance amounts.
Issuing green bonds provides several strategic advantages for organizations seeking to fund sustainable projects. Due to the high demand from global institutional investors focused on ESG criteria, these issuances often experience significant oversubscription. This robust demand can allow issuers to raise larger amounts of capital or potentially achieve better pricing terms, while also diversifying their investor base and enhancing reputation.

57. (A) Emission impact differs significantly between project types like transport and energy.
Regulatory bodies like SEBI utilize weightages across various project categories to provide investors with clear evidence of environmental impact. This approach is necessary because different sectors, such as transportation and energy, yield varying levels of greenhouse gas emission reductions per unit of investment. Weightages ensure that the reported environmental benefits are accurately represented and account for the technical nuances of each sector.

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42. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
In the green bond market, a "green default" occurs when an issuer fails to meet the environmental commitments specified in the bond agreement. Even if all financial interest and principal payments are made on time, violating these non-financial terms allows investors to claim damages. This mechanism ensures that issuers remain accountable for the environmental impact promised to sustainability-focused lenders.

43. (B) They extracted bonds with India as the country of risk and checked if proceeds went to green projects.
Researchers evaluating the progress of the Indian green bond market use specific methodologies to ensure data accuracy. Rather than relying solely on official bond titles, they identify bonds where India is listed as the country of risk. They then verify whether the proceeds were actually allocated to green projects, allowing for a comprehensive analysis of both officially labeled and unlabeled green debt.

44. (B) 30 percent subsidy; Rs. 2 per unit
The Indian government provides financial incentives to encourage the adoption of solar energy. For institutional entities in non-special category states, a standard subsidy of thirty percent is offered to cover installation costs. Additionally, if the annual generation exceeds specific thresholds like 1100kWh or 1500kWh, a generation-based incentive of two rupees per unit of electricity is provided to the generator.

45. (C) Assertion (A) is true, but Reason (R) is false.
Stakeholders often argue that certification standards should be tailored to the specific Indian context. While global standards provide a broad framework, they may fail to capture unique regional factors like local urban planning nuances and varying disaster risks. Therefore, relying exclusively on international criteria might not address the localized environmental and social complexities required for effective and relevant sustainable development in India.

46. (A) Strong investor demand might result in oversubscription and increased issuance amounts.
Issuing green bonds offers several strategic benefits to corporations and governments. Due to high demand from ESG-focused institutional investors, these bonds often experience significant oversubscription. This robust demand can allow issuers to increase the total amount raised or achieve more favorable pricing. Additionally, it helps diversify the investor base and enhances the issuer's public reputation regarding environmental responsibility and sustainability.

47. (B) Utilizing the proceeds only for the stated purpose(s), as disclosed in the offer document.
Issuers of Green Debt Securities in India must comply with strict disclosure and utilization requirements mandated by SEBI. Funds raised must be applied exclusively to the environmental projects or assets identified in the original offer document. Diverting these proceeds to non-green activities without updating the disclosures constitutes a direct violation of the responsibility to use the capital only for the stated environmental purposes.

48. (B) Bangladesh
National regulators use various mandates to direct capital toward sustainable energy. In 2015, the central bank of Bangladesh established a regulatory precedent by requiring all commercial banks to devote at least five percent of their total credit specifically to renewable energy and environmentally friendly technology. This policy ensures a steady flow of credit to the green sector and supports national climate mitigation goals.

49. (A) Clean coal technology and fossil fuel blending
SEBI's definition of "Green Debt Securities" includes several eligible categories such as climate change adaptation, biodiversity conservation, and sustainable land use. These categories are designed to support activities that have a clear positive impact on the environment. However, technologies involving clean coal or fossil fuel blending are explicitly excluded from these eligible categories to maintain the environmental integrity of the green bond market.

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66. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The Reserve Bank of India joined the Network for Greening the Financial System to align with global standards. Membership allows the central bank to collaborate with international peers on managing climate-related financial risks. By contributing to and learning from this global platform, the RBI aims to strengthen the domestic regulatory framework for sustainable development and enhance the resilience of the financial system.

67. (D) I, II, and III
The Business Responsibility and Sustainability Report introduced by SEBI consists of three detailed sections. Section A covers basic entity details and operations, while Section B focuses on management processes and governance. Section C classifies performance indicators into mandatory essential indicators and voluntary leadership indicators. Together, these sections provide a comprehensive framework for companies to report their environmental, social, and governance-related performance.

68. (A) P-3, Q-4, R-1, S-2
International regulatory bodies have taken various steps to address climate risks. The Basel Committee published a stocktake report on member initiatives, while the NGFS provided non-binding recommendations for supervisors. The European Central Bank requested institutions to report divergences from supervisory expectations. In the UK, regulators required firms to reflect ESG factors in risk frameworks without issuing prescriptive, new national rules.

69. (B) 2%
The Companies Act of 2013 in India introduced mandatory requirements for corporate social responsibility. Large capital companies are statutorily required to allocate at least two percent of their average net profits from the three preceding financial years toward CSR initiatives. These funds can be directed to various social and environmental causes, including ecological protection and environmental sustainability, ensuring corporate contribution to national goals.

70. (C) United Nations Development Programme (UNDP)
The Sustainable Finance Collaborative was launched by the Department of Economic Affairs to address barriers in deploying innovative financing modes like impact investing and blended finance. To facilitate these dialogues, the department formed a strategic partnership with the United Nations Development Programme. This collaboration aims to leverage international expertise to develop a more robust and effective sustainable finance ecosystem within India.

71. (A) Sustainable Finance Group (SFG)
In May 2021, the Reserve Bank of India established the Sustainable Finance Group within its Department of Regulation. This specialized unit was created to lead the central bank's efforts in suggesting strategies and evolving a regulatory framework for sustainable finance. The group's primary focus is to address climate-related financial risks and ensure that the banking sector is prepared for the transition.

72. (A) P-4, Q-1, R-2, S-3
India's climate commitments have evolved across international agreements. At COP21, targets included achieving forty percent non-fossil fuel electricity by 2030 and reaching one hundred seventy-five gigawatts of renewable capacity by 2022. During COP26, the pledges were strengthened to include reducing the economy's carbon intensity to less than forty-five percent by 2030 and reaching net-zero emissions by the year 2070.

73. (D) An instruction to reflect ESG factors in their risk frameworks without new rules, leaving guidance to the industry.
UK regulators have adopted a specific approach to integrating climate change into financial risk management. Rather than issuing a highly prescriptive and granular rulebook immediately, they have instructed firms to reflect ESG factors within their existing risk frameworks. This strategy leaves detailed guidance to be developed by the industry, allowing for flexibility as methodologies and tools for assessing climate-related financial risks continue to evolve.

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58. (C) Assertion (A) is true, but Reason (R) is false.
In the Nordic region, coalitions of local and regional governments have successfully issued bonds to fund environmental projects for their members. While this model demonstrates effective sub-national cooperation, the United Kingdom Green Investment Bank was established as a state-owned entity rather than a local government coalition. Therefore, the structure of the UK bank does not serve as an explanation for the Nordic regional models.

59. (C) The issuer has the discretion to appoint an independent reviewer at their own convenience.
Regarding the verification of green projects, the SEBI Circular provides flexibility to the issuers of Green Debt Securities. While transparency is encouraged, the appointment of an independent third-party reviewer or certifier to verify project eligibility is not mandatorily required for all issuances. Instead, the issuer has the discretion to appoint such reviewers at their own convenience to enhance investor confidence.

60. (B) Mandatory application of differential reserve requirements for all banks holding green asset portfolios.
India has implemented various incentives to promote green practices, including the Production Linked Incentive scheme for high-efficiency solar modules and expanded Priority Sector Lending for renewables. The State Bank of India also offers specialized green car loans. However, unlike some other jurisdictions, India has not implemented a mandatory policy of differential reserve requirements for commercial banks based on their green asset holdings.

61. (D) I, II, III, and IV
The Task Force on Sustainable Finance, established by the Indian government in January 2021, has a comprehensive mandate. Its responsibilities include defining a framework for sustainable finance, establishing a roadmap, and suggesting a draft taxonomy for sustainable activities. Additionally, it focuses on developing risk assessment frameworks for the financial sector to ensure that sustainability is integrated into the national economic strategy.

62. (A) Becoming carbon neutral by the year 2070.
India has outlined several ambitious goals as part of its national efforts towards green and sustainable financing. A central component of the proposed "Green Deal" is the commitment to becoming carbon neutral. The nation aims to achieve net-zero emissions by the year 2070, signaling a long-term transition towards a sustainable economy supported by renewable energy and significant reductions in greenhouse gas intensity.

63. (D) I, II, III, IV, and V
Under its Nationally Determined Contribution, India has pledged several major climate goals for 2030. These include reducing GDP emissions intensity by thirty-three to thirty-five percent and achieving forty percent installed electric capacity from non-fossil fuels. Additionally, the nation aims to create a significant carbon sink through forest cover and mobilize both domestic and international funds to implement these critical climate actions.

64. (A) P-4, Q-3, R-1, S-2
The Indian Budget of 2022 introduced several measures to bolster the green finance market. The Parivesh portal was expanded to provide information on green clearances. Sunrise opportunities, including clean mobility and green energy, were emphasized for sustainable development. Energy transition actions focused on solar power, while the government announced the issuance of sovereign green bonds to mobilize resources for infrastructure.

65. (A) A national measurement, reporting, and verification platform for tracking climate finance flows.
To improve the tracking of climate finance and reduce information asymmetry, experts suggest developing a robust domestic infrastructure. A national measurement, reporting, and verification platform is proposed to systematically monitor climate finance flows. This mechanism would provide the transparency needed to attract international investors and reduce borrowing costs by offering reliable data analogous to systems used in other major global economies.

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ensuring India's voice in global sustainability standards.

82. (A) At COP21, India pledged to become carbon neutral and achieve net zero emissions by the year 2050.
India has significantly updated its climate commitments between international summits. During the Paris Agreement, the nation focused on reducing emissions intensity and increasing non-fossil fuel capacity. The pledge to achieve net-zero emissions by the year 2070 was introduced much later during the COP26 summit. Consequently, claiming that the 2050 net-zero goal was part of the original COP21 resolutions is inaccurate.

83. (C) Both I and II
The green finance market faces significant challenges related to borrowing costs and information asymmetry. Projects often have high upfront costs and long-term savings, which can lead to maturity mismatches and higher financing costs. Furthermore, the lack of a universal definition for green finance creates "greenwashing" risks, where investors receive misleading signals, complicating the efficient allocation of sustainable capital.

84. (C) The government has incorporated carbon trading into its overall policy framework.
India's programmatic efforts to encourage green practices include various market-based mechanisms. The government has successfully incorporated carbon trading into its overall policy framework to incentivize emission reductions. This includes initiatives like the Perform, Achieve, and Trade scheme. Such policies are designed to leverage economic incentives to drive industrial efficiency and support the nation's transition toward a more sustainable and low-carbon economy.

85. (C) Assertion (A) is true, but Reason (R) is false.
The European Central Bank acknowledges that climate risk assessment methodologies are still maturing. While institutions are expected to adapt their practices, these expectations remain flexible as tools evolve. Conversely, the Network for Greening the Financial System provides non-binding guidance rather than mandatory quantitative capital surcharges. This allows for a coordinated but flexible regulatory response that accounts for different national economic and institutional contexts.

86. (C) 33 to 35%
As part of the Paris Agreement, India submitted its Nationally Determined Contribution, outlining specific climate targets. One key commitment was to reduce the emissions intensity of its gross domestic product by 2030. The target range for this reduction was set at thirty-three to thirty-five percent, measured against the levels recorded in 2005, reflecting the country's efforts to decouple economic growth from carbon emissions.

87. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
The issuance of sovereign green bonds serves as a powerful signal of government support for the green finance market. Separately, leveraging national development banks like SIDBI and NABARD can help channel investment toward areas that need credit improvement. While both actions support the growth of green finance, the role of development banks is a distinct structural mechanism rather than a direct explanation for sovereign bond issuance.

88. (B) Stock prices of entities that generally focused on ESG-related initiatives are the ones that outperformed others in the market.
Market performance data from India suggests that sustainability efforts correlate with better financial outcomes. Research indicates that stock prices of entities focused on ESG-related initiatives have generally outperformed others in the market. While green bond coupon rates and issuance costs vary, the strong performance of ESG-focused companies highlights the growing investor preference for businesses that successfully manage environmental, social, and governance-related risks.

89. (B) Climate change costs will more likely be factored into mainstream investment decisions.
Introducing a price on carbon is a significant policy tool for promoting green finance. By assigning a cost to emissions, climate change impacts are more likely to be integrated into mainstream investment decisions and corporate accounting. This mechanism incentivizes

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businesses to reduce their carbon footprint and encourages investors to shift capital toward low-carbon technologies, ultimately aligning financial markets with national sustainability goals.

90. (D) I, II, III, IV, and V
Strengthening the green finance market requires several coordinated policy measures. These include deepening the corporate bond market, standardizing green terminology, and ensuring consistent corporate reporting. Additionally, removing information asymmetry between investors and recipients is critical. Engaging with industry bodies to assess the needs of specific sectors, such as green buildings, further ensures that financial instruments are tailored to support diverse sustainable projects.

91. (B) P-2, Q-3, R-4, S-1
The RBI's July 2022 Discussion Paper outlines key themes for climate risk management. Immediate priorities involve shaping the policy discourse. The regulatory framework must account for emerging market aspects like geography. Integration challenges focus on incorporating sustainability into governance, strategy, and risk management. Finally, stress testing themes involve developing scenario analysis frameworks to analyze the potential financial effects of various climatic outcomes.

92. (C) Banks have successfully aligned their disclosures with international frameworks like TCFD.
An RBI survey on climate risk revealed that while many banks are pursuing capacity building, significant gaps remain. Most institutions felt that available data was insufficient for thorough financial assessments, and methodologies for monitoring climate risks were not yet fully developed. Consequently, the survey found that banks had not yet successfully aligned their disclosures with international frameworks like the Task Force on Climate-related Financial Disclosures.

93. (C) 34 leading scheduled commercial banks
In early 2022, the Reserve Bank of India conducted a comprehensive survey to evaluate the banking sector's preparedness for climate risk. To obtain a representative sample of the industry's status, the survey covered thirty-four leading scheduled commercial banks. The results provided critical insights into how major financial institutions are approaching sustainable finance and the specific challenges they face in integrating climate considerations into their operations.

94. (C) Chronic physical risk
The Reserve Bank of India identifies different categories of climate-related risks for the financial sector. Chronic physical risks represent long-term, gradual environmental changes such as rising sea levels, ocean acidification, and increasing average temperatures. These shifts can significantly impact the valuation of collateral assets like coastal real estate developments, requiring banks to integrate these factors into their long-term risk management and strategic planning.

95. (D) I, II, III, IV, and V
The RBI survey recommends that financial institutions implement several strategies to address climate risk. Banks should establish board-level monitoring for climate programs and develop a thorough understanding of physical and transition risks. Aligning disclosures with international frameworks and setting incremental lending targets for green projects are also critical. Furthermore, significant investment in employee capacity building is necessary to manage sustainable finance effectively.

96. (D) I, II, III, IV, and V
Observations from the RBI survey highlight several challenges and recognitions within the banking sector. Most banks recognize climate risk as a material threat and identify physical and transition risks as primary sources of danger. However, board-level engagement was found to be inadequate, and most banks lacked dedicated sustainability units. Additionally, the sufficiency of data for assessing climate-related financial risks remains a major concern for the industry.

97. (A) Liability risks - The process of adjustment towards a low-carbon economy.
Climate change risks for banks include physical, transition, and liability categories. While acute and chronic physical risks stem from weather events and gradual environmental shifts, transition risks arise from the economic adjustment toward a low-carbon economy.

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Liability risks involve legal claims from parties suffering losses due to climate change impacts, rather than the policy or technological shifts typically associated with transition risks.

98. (B) Banks should avoid allocating specific resources to the field of sustainable finance to prevent operational distractions.
The RBI survey provides several recommendations for financial institutions to improve their sustainability practices. Banks are encouraged to integrate climate risk into senior management evaluations and incorporate mitigation strategies into their overall risk management frameworks. Rather than avoiding resource allocation, institutions should consider collaborating on roadmaps to achieve net-zero emissions, as sustainable finance is increasingly viewed as a core operational priority.

99. (D) I, II, and III
Banks in India are taking progressive steps to reduce the carbon footprint of their operations. According to the RBI survey, most institutions have plans to decrease absolute carbon emissions and increase the proportion of renewable energy in their electricity sourcing. Furthermore, several banks have announced or are developing time-bound roadmaps to become carbon-neutral, demonstrating a growing commitment to environmental sustainability within their own internal operations.

100. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Following consultations with various stakeholders, the Reserve Bank of India plans to issue comprehensive guidelines on climate risk. Sustainable finance is recognized as a vital component of the broader strategy to address climate change. Structural regulatory direction is necessary to ensure that the financial system can effectively manage emerging risks while supporting the transition toward a more sustainable and resilient national economy.

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CHAPTER 25

Special Purpose Acquisition Companies

Oct/Nov 2015

1. Consider the following statements:

I. The money in the SPAC trust account is invested in government securities or kept as cash.

II. In a select few instances, the interest accrued from the trust account may be applied toward providing the SPAC with working capital.

Which of the statements given above is/are correct?

(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

May/June 2012

2. What is the best justification for requiring only 37.5% of the public shares to accomplish a majority vote for a De-SPAC transaction?

(A) Stock exchanges mandate that no more than 37.5% of public shares can vote in any single transaction.
(B) The SEC regulations cap public voting power to prevent retail investors from blocking high-value mergers.
(C) Sponsor commitment to vote their 20% stake in favor reduces the public threshold needed for a majority.
(D) Public warrants automatically convert into affirmative votes, representing the remaining balance needed.

Oct/Nov 2024

3. Which of the following statements is correct regarding the Indian regulatory framework concerning blank cheque companies?

(A) The framework actively encourages blank cheque companies by waiving incorporation rules.
(B) The Companies Act, 2013 stipulates that a company can be struck off if it does not commence operations within a year of incorporation.
(C) The Securities and Exchange Board of India (SEBI) has explicitly banned Indian companies from ever listing overseas via a SPAC.
(D) The Ministry of Corporate Affairs (MCA) passed a final law in February 2022 that fully recognized SPACs on domestic markets.

May/June 2020

4. When Delta Energy announced its target, a high number of public investors opted to redeem their shares, creating a massive shortfall in cash. What specific disadvantage of a SPAC merger did Delta Energy encounter?

(A) Shareholding dilution
(B) Deficiency in available capital
(C) Compact Timeframe for Compliances
(D) Inability to Track Use

Oct/Nov 2006

5. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below:

Assertion (A): In a SPAC, the traditional underwriter is absent and does not provide a comfort letter for the target company.

Reason (R): The literature defines that because the target company in a SPAC is already public, it does not have an underwriter.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2007

6. Consider the following statements regarding the characteristics of the SPAC management team:

I. The team must include at least three people with prior expertise in private equity, M&A,

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and/or operating roles.

II. The management team is entitled to receive 20% of the equity of the vehicle, excluding the value of any issued warrants.

III. Prior to the business merger, the management team does not receive any cash compensation in the form of wages or finder's fees.

Which of the statements given above are correct?

(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2019

7. Match the following SPAC terms (List I) with their corresponding definitions (List II):

List I: (Terms)

P. De-SPACing
Q. PIPE
R. Promote
S. Super 8-K

List II: (Definitions)

1. A filing that contains information equivalent to a Form 10 filing
2. The 20 percent stake in the SPAC owned by sponsors through founder shares
3. The process of finding and finalizing a merger with a target firm
4. Private investment in public equity to raise additional capital

(A) P-3, Q-4, R-2, S-1
(B) P-4, Q-3, R-1, S-2
(C) P-2, Q-1, R-4, S-3
(D) P-1, Q-2, R-3, S-4

May/June 2025

8. Which of the following statements regarding the disadvantages of a SPAC is incorrect?

(A) Retail investors face the risk of hampering with an investment that could be overhyped due to narrow regulatory oversight.
(B) SPAC sponsors typically benefit from an earnout component, which could result in further shareholding dilution for initial investors.
(C) SPACs require highly stringent financial due diligence that exceeds the requirements of a traditional IPO.
(D) The target company is responsible for preparing required financials in SEC filings within a much shorter timeframe than an IPO.

Oct/Nov 2022

9. In the context of a SPAC transaction, what does the term "PIPE" stand for?

(A) Private Investment in Public Equity
(B) Public Investment in Private Enterprises
(C) Primary Initial Public Exchange
(D) Provisional Investment and Purchase Entity

May/June 2014

10. The sponsors of AlphaTech need to cover the pre-IPO legal, travel, and roadshow expenses, as the SPAC currently lacks adequate cash. Which specific agreement did the sponsors enter into with AlphaTech to provide a loan for these expenses?

(A) Forward Purchase Agreement
(B) Letter Agreement
(C) Promissory Note
(D) Securities Purchase Agreement

Oct/Nov 2017

11. Consider the following statements about SPAC Sponsor financial dynamics:

I. The sponsor signs a Private Placement Warrants Purchase Agreement to finance founder warrants one business day before the IPO conclusion.

II. The sponsor enters a Promissory Note to lend money to the SPAC to fund pre-IPO expenses.

III. Through an Administrative Service Agreement, the SPAC pays a monthly charge to the sponsor for office space and utilities.

IV. Sponsors are guaranteed the return of their risk capital even if a transaction is unsuccessful.

Which of the above statements are correct?

(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, and IV

May/June 2008

12. Match the following numerical data (List I) to the corresponding SPAC context (List II):

List I: (Numerical Data)

P. $80 billion
Q. 80 percent
R. 42 percentage points
S. 70 percent

NODIA

(D) I, III, IV, and V

Oct/Nov 2018

63. Which of the following pairs of stakeholders and their roles is incorrectly matched?
(A) Transfer agent : Signs the warrant agreement with the SPAC
(B) Sponsors : Issue comfort letters ensuring the target company meets all regulatory requirements
(C) Management team : Entitled to receive 20% of the equity of the vehicle excluding warrants
(D) Independent directors : Remunerated via the cost-plus sale of founder shares

May/June 2010

64. The funds kept in the trust account can be used for all of the following purposes EXCEPT:
(A) Paying for the business combination.
(B) Redeeming common stock under a compulsory redemption offer.
(C) Funding the company's working capital following the De-SPAC transaction.
(D) Distributing annual cash dividends to the public investors prior to the De-SPAC transaction.

Oct/Nov 2014

65. Why is the discovery of the price up front considered a significant advantage of a SPAC merger over a traditional Initial Public Offering (IPO)?
(A) It ensures the target company's share price will only increase post-merger due to market stabilization efforts.
(B) It prevents the investment bank from collecting any deferred underwriting discount regardless of transaction size.
(C) It guarantees that retail investors will not face any shareholding dilution from warrants or founder shares.
(D) Upfront price negotiation provides stability during volatile market conditions.

May/June 2009

66. A year later, Gamma Consumer merges with a retail chain. The stock price surges, and warrants become exercisable. When the public investors exercise their warrants, how are these transactions standardly settled according to typical SPAC characteristics?
(A) Investors receive shares equal to the market value difference through net settlement procedures.
(B) Public warrants are cash-settled by paying the specific strike price.
(C) Transactions are finalized via a Promissory Note issued by the sponsor to the warrant holder.
(D) Settlement is executed exclusively through the application of a deferred underwriting discount.

Oct/Nov 2007

67. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below:
Assertion (A): SPAC sponsors run a significant risk of losing their initial risk capital investment.
Reason (R): In the event that the sponsor is unable to form a combination within a period of two years, the SPAC is dissolved and investors are entitled to a full refund, leaving the sponsor's expenses unrecovered.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2022

68. A SPAC Letter Agreement typically includes all of the following provisions EXCEPT:
(A) An indemnification from the sponsor towards the SPAC for certain claims against the trust account.
(B) A voting agreement obligating the officers and sponsor to vote their shares in favour of the De-SPAC transaction.
(C) An obligation to forfeit founder shares to the extent that the green shoe is not exercised in full.
(D) An agreement outlining the exact cash salaries to be paid to the management team prior to the merger.

Oct/Nov 2012

69. Following the closing of a SPAC merger, within how many business days must a Form 8-K

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from the sponsor.

Oct/Nov 2025

19. How does the settlement of public warrants conceptually differ from the settlement of founder warrants in a SPAC?
(A) Public warrants are typically net settled, whereas founder warrants are cash settled.
(B) Public warrants are typically settled in cash, whereas founder warrants are net settled.
(C) Both are strictly settled in cash, but public warrants carry a higher strike price.
(D) Both are strictly net settled, but founder warrants require the payment of an underwriting fee.

May/June 2023

20. While the public warrants are cash settled, the sponsors of GammaConsumer also decide to exercise their founder warrants. How does the settlement process for the founder warrants differ from that of the public warrants?
(A) Founder warrants are voided upon merger and exchanged for new forward purchase agreements.
(B) Warrants are subjected to a mandatory redemption offer at the original $10 IPO offer price.
(C) Founder warrants use net settlement, requiring no cash payment.
(D) Warrants are converted into public units at a fixed 2:1 ratio regardless of market price.

Oct/Nov 2018

21. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below:
Assertion (A): Public warrants in a SPAC are typically net settled, meaning public investors do not pay cash to exercise them.
Reason (R): The founder warrants are net settled, meaning the founder receives shares equal to the fair market value difference without paying cash.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2010

22. Consider the following statements:
I. To approve a De-SPAC transaction, exactly 50% of the outstanding public shares are required to vote in favor, assuming sponsors hold a 20% stake.
II. The founder shareholders commit to voting in favor of the De-SPAC transaction at the time of the initial public offering.
Which of the statements given above is/are correct?
(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

Oct/Nov 2014

23. Arrange the following stages of the typical SPAC life cycle in the correct chronological order:
I. Investor meetings & shareholder vote
II. Target search
III. Formation and IPO Phase
IV. Negotiations
(A) III, II, IV, I
(B) II, III, I, IV
(C) III, IV, II, I
(D) I, II, III, IV

May/June 2009

24. Which of the following statements correctly describes the funding of the SPAC trust account?
(A) It is financed by exactly 50% from the general public and 50% from the sponsors to balance initial risks.
(B) At least 100% of the gross IPO proceeds are placed in the trust account.
(C) The funds are strictly prohibited from being invested in government securities to avoid tax-related complexities.
(D) The trust account is solely utilized to pay the management team's salaries prior to the finalization of the merger.

Oct/Nov 2007

25. To rescue the deal and fill the cash shortfall caused by the massive redemptions, what specific type of financing must Delta Energy's sponsors urgently organize?
(A) PIPE (Private Investment in Public Equity) commitment

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List II: (Context)

1. Minimum proportion of the trust's total assets that the target's enterprise value must represent
2. Amount by which the median SPAC underperformed the Russell 3000 index six months post-deal closure
3. Total investment in the approximately 250 SPACs established in the year 2020
4. Proportion of SPACs IPO'd in 2021 trading below the $10 offer price as of Sept 15, 2021

(A) P-2, Q-4, R-1, S-3
(B) P-4, Q-3, R-4, S-1
(C) P-3, Q-1, R-2, S-4
(D) P-1, Q-2, R-3, S-2

Oct/Nov 2011

13. All of the following are primary advantages of going public through a SPAC merger compared to an initial public offering (IPO), EXCEPT:
(A) Complete elimination of the risk of shareholding dilution for public investors.
(B) Speedier execution taking three to six months on average.
(C) Discovery of the price up front before the transaction is finalized.
(D) Ease of access to specialised operational knowledge from seasoned sponsors.

May/June 2021

14. What is the standard timeframe within which a SPAC typically has to find an acquisition target and successfully close on it after raising cash through an IPO?
(A) 3 to 6 months
(B) 6 to 12 months
(C) 12 to 18 months
(D) 18 to 24 months

Oct/Nov 2005

15. During the shareholder meeting, some retail investors express skepticism about the BetaBio deal and wish to exit their investment. They have the option to exchange their shares for a proportional share of the profits stored in the trust account. What is this process officially known as?
(A) Redemption Offer
(B) De-SPACing
(C) Forward Purchase
(D) Warrant Exercise

May/June 2016

16. Consider the following statements describing the disadvantages of SPACs:
I. Returns from SPACs may fall below expectations once the initial hype wears off.
II. The target company is responsible for preparing the bulk of the required financials in SEC filings in a compact timeframe.
III. The financial due diligence in a SPAC is highly stringent and typically broader than in a traditional IPO.
IV. Higher than anticipated redemptions by initial SPAC investors can cause a deficiency in available capital.
V. SPAC sponsors typically own a 20 percent stake and possess warrants, which could result in further shareholding dilution.
Which of the statements given above are correct?
(A) I, II, III, and V
(B) I, II, IV, and V
(C) II, III, IV, and V
(D) I, III, IV, and V

NODIA

Oct/Nov 2020

17. Which of the following pairs of numerical figures and their corresponding facts is incorrectly matched?
(A) 12.5 million : Maximum statutory limit of public shares that a SPAC can issue in an IPO
(B) 24 months : Maximum timeline generally given to find and finalize a merger
(C) 37.5% : Public shares necessary to accomplish the majority vote for De-SPAC
(D) $10 : Offer price below which nearly 70% of 2021 SPACs traded by Sept 2021

May/June 2019

18. What is the most appropriate reason for the recent surge in the popularity of SPACs following the market disruption caused by the Covid-19 pandemic?
(A) They offer industry flexibility and downside protection via redemption rights.
(B) They completely bypass the SEC's regulatory oversight and avoid filing a mandatory Form 8-K.
(C) They guarantee a fixed return on investment that is significantly higher than standard government securities.
(D) They allow retail investors to exclusively select the target company without any input

merger.
II. The target company's enterprise value at acquisition should represent at least 80 percent of the trust's total assets.
III. Public shareholders have the option to redeem their shares or vote against the deal.
IV. The target company in a SPAC merger already being public means it does not have an underwriter.

Which of the above statements are correct?
(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, III, and IV

Oct/Nov 2016

33. Match the regulatory or market events (List I) to their respective contexts (List II):
List I: (Events)
P. Companies Act, 2013
Q. Sarbanes-Oxley Act
R. SEC accounting regulation (April 2021)
S. ReNew Energy Global PLC
List II: (Contexts)
1. Created a regulatory climate that makes it difficult for smaller businesses to raise funding
2. Led to a drop in new SPAC filings in the second quarter compared to the first quarter
3. Stipulates striking off a company if it does not commence operations within a year
4. First major overseas listing of an Indian company via a SPAC
(A) P-1, Q-4, R-3, S-2
(B) P-4, Q-2, R-1, S-3
(C) P-2, Q-3, R-4, S-1
(D) P-3, Q-1, R-2, S-4

May/June 2024

34. If an institutional investor with a limited investment mandate agrees to supply the necessary funds to complete the Delta Energy transaction conditional on the De-SPAC satisfying their mandate, what specific agreement are they engaging in?
(A) Securities Assignment Agreement
(B) Forward Purchase Agreement
(C) Sponsor Constituent Document
(D) Letter Agreement

Oct/Nov 2021

35. AlphaTech Acquisition Corp is formed by a group of seasoned technology executives to acquire a promising tech startup in North America. During the IPO, AlphaTech issues 50 million shares to the public at $10 per share. Based on the standard 20% equity stake target for sponsors, how many founder shares must the sponsors purchase to ensure their ownership percentage after the public issuance?
(A) 10 million shares
(B) 12.5 million shares
(C) 20 million shares
(D) 25 million shares

May/June 2005

36. Consider the following statements about the De-SPAC Process:
I. The De-SPAC procedure requires the SPAC to obtain approval from its shareholders.
II. Stock exchanges require mandatory voting by their shareholders to approve a De-SPAC merger.
III. Founder shareholders commit at least 20 percent of outstanding shares to vote in support of the De-SPAC transaction.
IV. If the De-SPAC deal fails, the money is returned to public shareholders, but public warrants and founder shares expire.

Which of the above statements are correct?
(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, and IV

Oct/Nov 2010

37. Match the following specific agreements (List I) with their corresponding functions (List II):
List I: (Agreements)
P. Promissory Note
Q. Administrative Service Agreement
R. Securities Assignment Agreement
S. Private Placement Warrants Purchase Agreement
List II: (Functions)
1. Facilitates the financing of founder warrants one day prior to the conclusion of the IPO
2. Compensates independent directors since they do not receive regular fees
3. Lends funds to the SPAC for legal, travel, and accounting expenses prior to IPO completion

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(B) Promissory Note funding
(C) Deferred underwriting discount
(D) Increased founder warrants allocation

May/June 2022

26. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below:
Assertion (A): The management team of a SPAC receives regular cash compensation in the form of wages prior to the business merger.
Reason (R): A SPAC does not carry any commercial operations and is incorporated purely to raise capital via an IPO.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2012

27. Consider the following statements regarding IPO agreements:
I. The SPAC Charter includes an anti-dilution modification to the conversion ratio for founder shares.
II. The Securities Purchase Agreement prevents founder shares from being decreased or increased through a stock split or dividend.
III. The Warrant Agreement must be signed by both the SPAC and the transfer agent before a warrant may be issued.
Which of the statements given above are correct?
(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

May/June 2013

28. Match the following timelines (List I) with their corresponding events (List II):
List I: (Timelines)
P. 3 to 6 months
Q. 12 to 18 months
R. 18 to 24 months
S. 4 business days
List II: (Events)
1. The timeframe to file a Form 8-K after closing the merger
2. The average time it takes to execute a SPAC merger
3. The typical time it takes to complete a traditional Initial Public Offering
4. The deadline for a SPAC to find a target and complete a merger
(A) P-3, Q-2, R-1, S-4
(B) P-4, Q-1, R-3, S-2
(C) P-2, Q-3, R-4, S-1
(D) P-1, Q-4, R-2, S-3

NODIA

Oct/Nov 2008

29. Which of the following statements about SPAC formation and timelines is incorrect?
(A) After the IPO, proceeds are deposited into a trust account.
(B) A traditional IPO typically executes faster, taking 3 to 6 months compared to the 12 to 18 months required for a SPAC merger.
(C) The SPAC normally has between 18 and 24 months to find and finalise a merger.
(D) If the SPAC cannot accomplish a merger within the specified time, it will be liquidated.

May/June 2017

30. What is another name commonly used in popular media to refer to Special Purpose Acquisition Companies (SPACs)?
(A) Venture Capital Shells
(B) Blind Trust Funds
(C) Blank Cheque Companies
(D) Proxy Holding Firms

Oct/Nov 2009

31. A month after the IPO, AlphaTech rents office space from one of the sponsors. Through which agreement does AlphaTech authorize a monthly charge paid to the sponsor for the rented office space and associated utilities?
(A) Registration Rights Agreement
(B) Sponsor Constituent Document
(C) Securities Assignment Agreement
(D) Administrative Service Agreement

May/June 2018

32. Consider the following statements regarding SPAC Formations and Timelines:
I. After the IPO, the proceeds are placed in a trust account where the SPAC normally has between 18 and 24 months to finalize a

May/June 2012

44. What percentage of the warrant holders must approve any change to the conditions of the warrant agreement?
(A) 25%
(B) 37.5%
(C) 50%
(D) 80%

Oct/Nov 2024

45. GammaConsumer SPAC raised $200 million in its IPO. What is the minimum percentage of the gross IPO proceeds that GammaConsumer SPAC is required to place into the trust account?
(A) 50%
(B) 80%
(C) 95%
(D) A sum equal to or greater than 100%

May/June 2020

46. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below:
Assertion (A): The current Indian regulatory framework readily allows the creation and operation of blank cheque companies without any operational timelines.
Reason (R): The Companies Act, 2013 stipulates that the Registrar of Companies can strike off a company if it does not commence operations within a year of incorporation.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2006

47. Consider the following statements:
I. Founder warrants can be redeemed for cash at any time after the IPO.
II. The public warrants are typically net settled, meaning investors receive shares equal to the fair market value without paying cash.
Which of the statements given above is/are correct?
(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

May/June 2007

48. Which of the following best explains why private equity funds often make forward purchase commitments in a SPAC?
(A) To provide additional closing funds, often contingent on the deal meeting their investment mandate.
(B) To guarantee the SPAC avoids any SEC registration requirements through private placement exemptions.
(C) To ensure the management team receives their cash compensation prior to the finalization of the De-SPAC.
(D) To legally force the retail investors into waiving their redemption rights during the shareholder vote.

Oct/Nov 2019

49. What is the underlying cause of a "deficiency in available capital" during the later stages of a SPAC merger?
(A) Redemption of public shares at a higher rate than anticipated.
(B) The investment bank charging an excessively high upfront advisory fee.
(C) The target company failing to meet its revenue projections prior to the De-SPACing.
(D) The sponsor refusing to sign the Private Placement Warrants Purchase Agreement.

May/June 2025

50. Delta Energy SPAC was launched in late 2020 but faced increasing regulatory oversight by late 2021. The strict new accounting regulations that led to a drop in new SPAC filings in the second quarter of 2021 were issued by which regulatory body?
(A) The Securities and Exchange Board of India (SEBI)
(B) The Securities and Exchange Commission (SEC)
(C) The Parliamentary Standing Committee
(D) The Ministry of Corporate Affairs (MCA)

Oct/Nov 2022

51. The following question consists of two statements, one labeled as Assertion (A) and the

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4. Dictates a monthly charge for utilities, office space, and secretarial support

(A) P-4, Q-1, R-3, S-2
(B) P-2, Q-3, R-1, S-4
(C) P-1, Q-2, R-4, S-3
(D) P-3, Q-4, R-2, S-1

May/June 2011

38. Which of the following statements concerning the SPAC merger process is incorrect?

(A) Stock exchanges mandate that voting by shareholders is strictly necessary for them to process the transaction.
(B) The SPAC will prepare and file a proxy statement (or joint registration and proxy statement on Form S-4).
(C) A Form 8-K must be filed with the SEC within four business days of the closing.
(D) The proxy document will contain pro forma financial statements demonstrating the effects of the merger.

Oct/Nov 2023

39. How is the "Promote" defined within a SPAC's capital structure?

(A) The strategic marketing roadshow conducted to attract various retail investors and institutional interest.
(B) The interest accrued from the trust account that is subsequently applied toward meeting working capital.
(C) The 20% stake in the SPAC held by sponsors via founder shares.
(D) The deferred underwriting discount paid to the investment bank upon the successful closing of a merger.

May/June 2006

40. BetaBio SPAC has been trading for 16 months when its management announces a definitive agreement to merge with a private biotech firm. The enterprise value of the biotech firm is equivalent to 85% of BetaBio's trust account assets. Does this enterprise value meet the minimum regulatory threshold required for a SPAC acquisition target?

(A) No, regulatory standards mandate that target value must equal at least 95% of total trust assets.
(B) Yes, since target value must be at least 80% of trust assets.
(C) No, guidelines require the enterprise value to represent exactly 100% of the initial IPO proceeds.
(D) Yes, as current stock exchange rules establish no specific minimum threshold for enterprise value.

Oct/Nov 2013

41. Consider the following statements regarding the steps and rules of De-SPACing:

I. A proxy statement on Form S-4 is prepared if the SPAC intends to register new securities.
II. The proxy document must include historical financial statements and management's discussion and analysis (MD&A).
III. A Super 8-K form must be filed within four business days of the closing.
IV. Just 37.5% of the public shares are necessary to accomplish the majority vote for the De-SPAC transaction.
V. The redemption offer is not valid for public warrants until such time as those warrants are either exercised, exchanged, or otherwise voided.

Which of the statements given above are correct?

(A) I, II, III, and IV
(B) II, III, IV, and V
(C) I, III, IV, and V
(D) I, II, III, IV, and V

May/June 2015

42. Which of the following pairs of terms and their descriptions is correctly matched?

(A) Blank Cheque Companies : Highly regulated entities barred from raising capital through IPOs
(B) PIPE : Private Investment in Public Equity used to fund the transaction and fuel growth
(C) Promote : The non-refundable fees paid to attorneys and bankers
(D) Form S-4 : The document filed exclusively to liquidate a SPAC and return funds

Oct/Nov 2015

43. All of the following are considered universal documents common to all SPACs EXCEPT:

(A) The certificate of incorporation
(B) The registration rights agreement
(C) The Sponsor Constituent Document
(D) Both (A) and (B) are universal documents, while (C) is specific to SPACs.

NODIA

Oct/Nov 2005

57. Consider the following statements on Regulatory and Market Aspects:

I. SEBI explicitly prohibited all SPAC listings globally under the Companies Act in May 2022.

II. New SEC accounting regulations issued in April 2021 caused a drop in new SPAC filings.

III. The Sarbanes-Oxley Act created a regulatory climate making it difficult for smaller businesses to raise funding, bolstering SPACs as an alternative.

IV. The majority of SPACs that had their IPO in 2021 traded below the $10 offer price as of September 2021.

Which of the above statements are correct?

(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, and IV

May/June 2016

58. Match the following SPAC structural components (List I) with their corresponding descriptions (List II):

List I: (Components)

P. Trust Account
Q. Public Warrants
R. Founder Warrants
S. Forward Purchase

List II: (Descriptions)

1. Typically settled in cash by paying the strike price for a company share
2. Net settled based on the difference between the trading price and the strike price
3. An agreement by institutional investors to buy equity to provide necessary funds to complete the transaction
4. Funded by roughly 95% from the general public and 5% from sponsors

(A) P-1, Q-4, R-3, S-2
(B) P-4, Q-1, R-2, S-3
(C) P-3, Q-2, R-1, S-4
(D) P-2, Q-3, R-4, S-1

Oct/Nov 2020

59. Which of the following statements regarding the SPAC capital structure is incorrect?

(A) In exchange for their investment, investors get units containing a share of common stock and a warrant.
(B) Following the IPO, the composition of shareholding is generally 80% public shares and 20% founder shares.
(C) The founders contribute the startup funding and stand to benefit financially from the purchased business.
(D) After the IPO, the units are strictly prohibited from being split up into warrants and common stock on the open market.

May/June 2019

60. Approximately how many SPAC initial public offerings took place globally in the year 2021?

(A) 59
(B) 172
(C) 250
(D) 600

Oct/Nov 2025

61. Following the merger announcement, BetaBio intends to register new securities. What specific document must BetaBio prepare and file to register these new securities as part of the proposed merger?

(A) Form 10
(B) Super 8-K
(C) Sponsor Constituent Document
(D) Form S-4

May/June 2023

62. Consider the following statements detailing specific SPAC documents:

I. The Securities Assignment Agreement dictates the remuneration of independent directors via the cost-plus sale of founder shares.

II. The Sponsor Constituent Document puts the relationship of the sponsor owners and their relative participation into writing.

III. The Letter Agreement includes an obligation to forfeit founder shares to the extent the green shoe is not exercised in full.

IV. The Registration Rights Agreement grants broad registration rights exclusively to the target company's original shareholders.

V. The Promissory Note allows the sponsor to lend funds to the SPAC for IPO offering costs.

Which of the statements given above are correct?

(A) I, II, III, and V
(B) I, II, IV, and V
(C) II, III, IV, and V

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other as Reason (R). Select the correct answer using the codes given below:
Assertion (A): Investors who initially invested in a SPAC face the risk of shareholding dilution upon the merger.
Reason (R): SPAC sponsors typically own a 20 percent stake and benefit from warrants and earnout components that allow them to receive additional shares.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2014

52. Consider the following statements regarding the stakeholders of a SPAC:
I. Sponsors provide non-refundable fees to cover the costs of running the organization.
II. If a combination is not formed within two years, sponsors receive a full refund of their initial risk capital.
III. A sponsor who invests roughly $7 to $8 million for administrative costs may achieve a vested stake worth $125 million if successful.
Which of the statements given above are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2017

53. Match the following stakeholders/entities (List I) with their corresponding characteristics (List II):
List I: (Stakeholders)
P. SPAC Sponsors
Q. Public Investors
R. Target Company
S. Independent Directors
List II: (Characteristics)
1. Responsible for preparing the bulk of required financials in SEC filings
2. Receive units containing a share of common stock and a fraction of a warrant
3. Provide initial non-refundable risk capital to cover administrative costs
4. Compensated through a cost-plus sale of founder shares
(A) P-2, Q-3, R-4, S-1
(B) P-4, Q-1, R-2, S-3
(C) P-1, Q-4, R-3, S-2
(D) P-3, Q-2, R-1, S-4

May/June 2008

54. Which of the following statements is correct regarding the redemption offer in a SPAC transaction?
(A) The redemption offer is immediately valid for public warrants that have not yet been converted into shares.
(B) If the deal fails, public shareholders lose their initial investment while founder shares retain their value.
(C) The redemption offer prevents a SPAC from ever changing its charter documents to extend the De-SPAC timeline.
(D) Public shareholders may exchange their shares for a proportional amount of trust account funds.

NODIA

Oct/Nov 2011

55. Which of the following best defines a Special Purpose Acquisition Company (SPAC)?
(A) A company that performs extensive commercial operations to generate sufficient capital for a subsequent Initial Public Offering.
(B) A company formed solely to raise IPO capital to merge with or acquire an existing operational business.
(C) A traditional private equity fund that utilizes debt financing to purchase publicly traded companies and take them private.
(D) A regulatory body established to manage the various legal complexities and mergers involving high-leverage private companies.

May/June 2021

56. If AlphaTech successfully completes its merger within two years and the founders' shares vest at $10 per share, what will be the monetary value of the 12.5 million shares held by the sponsors?
(A) $50 million
(B) $100 million
(C) $125 million
(D) $500 million

(commonly referred to as the Super 8-K) be filed with the SEC?
(A) Two business days
(B) Four business days
(C) Seven business days
(D) Ten business days

May/June 2013

70. The sponsor group holds 20% of BetaBio's outstanding shares and is committed to voting in favor of the deal. What minimum percentage of the publicly held shares must vote in favor to achieve the required majority for the transaction?
(A) 20%
(B) 30%
(C) 37.5%
(D) 50.1%

Oct/Nov 2008

71. Consider the following statements regarding Warrants, PIPE, and Forward Purchase:
I. A PIPE stands for "private investment in public equity".
II. Public warrants are cash settled, requiring the investor to pay the strike price.
III. Founder warrants cannot be redeemed for cash.
IV. Forward purchase agreements are entered into by affiliates of the sponsor or institutional investors to provide necessary additional funds.
V. Private equity funds committing to a forward purchase often condition their obligation on the De-SPAC transaction satisfying their investment mandate.
Which of the statements given above are correct?
(A) I, II, III, and IV
(B) II, III, IV, and V
(C) I, III, IV, and V
(D) I, II, III, IV, and V

May/June 2017

72. Consider the following statements:
I. The Indian regulatory framework currently permits the creation of blank cheque companies without any operational time constraints.
II. Videocon d2h and online travel agency Yatra had SPAC deals prior to ReNew Power's overseas listing via a SPAC.
Which of the statements given above is/are correct?
(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

Oct/Nov 2009

73. Which of the following best describes the primary selling point for investors when founders seek financial backing for a SPAC?
(A) The comprehensive historical financial statements provided by the unnamed and unlisted target company.
(B) The industry experience and reputation of the seasoned business leaders acting as sponsors.
(C) The guaranteed high-interest yield generated by the funds held within the SPAC trust account.
(D) The total elimination of any banking, legal, or accounting fees during the SPAC's operational phase.

May/June 2018

74. What is the primary reason that a SPAC sponsor agrees to engage into a promissory note with the SPAC prior to the completion of the IPO?
(A) To provide a guaranteed earnout component for the management team regardless of merger success.
(B) To finance the acquisition of the target company outright using private sponsor funds and debt.
(C) To provide bridge funding for administrative and offering costs pre-IPO.
(D) To fulfill the mandatory PIPE commitment required by institutional investors for transaction validation.

NODIA

Oct/Nov 2016

75. Before GammaConsumer SPAC could issue the public warrants during its IPO, it had to sign a Warrant Agreement outlining the parameters. Who is the external party that signs this agreement alongside the SPAC?
(A) The SEC
(B) The target company's CEO
(C) The independent auditor
(D) The transfer agent

of the market at listing to determine the transaction price, preventing upfront negotiation.

III. To complete a merger, a SPAC may raise additional capital via a PIPE commitment.

IV. If an acquisition cannot be completed in the allotted time, the SPAC is liquidated and funds are distributed back to public shareholders.

V. After an acquisition is completed, a SPAC will typically apply to be listed on a stock exchange.

Which of the above statements are correct?

(A) I, II, IV, and V
(B) I, III, IV, and V
(C) II, III, IV, and V
(D) I, II, III, and V

May/June 2020

88. Which of the following pairs of SPAC agreements and their primary provisions is correctly matched?

(A) Promissory Note : Lends funds to the SPAC to cover costs prior to the completion of the IPO
(B) Securities Assignment Agreement : Obligates the officer to vote their founder shares in favour of the De-SPAC
(C) Charter : Dictates the monthly charge for secretarial support
(D) Warrant Agreement : Provides for the issue of founder shares sized to 25% of publicly traded shares

Oct/Nov 2006

89. The management team of a SPAC prior to the business merger receives compensation in all of the following forms EXCEPT:

(A) Cash wages
(B) Finder's fees
(C) Traditional operating bonuses
(D) All of the above

May/June 2007

90. What is the typical percentage of equity that the management team of a SPAC is entitled to receive, excluding the value of any warrants that may be issued?

(A) 5%
(B) 10%
(C) 20%
(D) 37.5%

Oct/Nov 2019

91. Assuming the BetaBio merger is finalized and regulatory issues are resolved, BetaBio must file a document containing information equivalent to a Form 10 filing. What is the strict deadline for filing this Super 8-K?

(A) Within one business day of the closing
(B) Within four business days of the closing
(C) Within ten business days of the closing
(D) Within thirty days of the closing

May/June 2025

92. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below:

Assertion (A): SPACs are formed by investors or sponsors who possess experience in a specific industry or business sector.

Reason (R): Their objective is to leverage this expertise to pursue business opportunities, raise capital, and acquire an existing business within a stipulated timeframe.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2022

93. Consider the following statements:

I. The management team of a SPAC collects a monthly salary directly from the trust account prior to the business combination.

II. In the event the management team is unable to successfully complete a business combination, they are not included in the distribution of assets resulting from liquidation.

Which of the statements given above is/are correct?

(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

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and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2006

82. Consider the following statements regarding the Trust Account and Warrants:
I. A sum equal to or greater than 100% of the gross proceeds of the IPO is used to finance the trust account.
II. Sponsors contribute roughly 5% of the funds to the trust account, while the public contributes roughly 95%.
III. Public units often include only a portion of a single warrant, such as one-third or half.
IV. Founder warrants are typically cash-settled based on the IPO share price.
Which of the above statements are correct?
(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, and IV

Oct/Nov 2013

83. Match the following disadvantages of SPACs (List I) with their underlying causes (List II):
List I: (Disadvantages)
P. Deficiency in available capital
Q. Compact Timeframe for Compliances
R. Narrow Scope for Financial diligence
S. Shareholding dilution
List II: (Underlying Causes)
1. The target company must establish public company functions in a much shorter period than an IPO
2. The absence of stringent due diligence could lead to incorrectly valued businesses
3. Higher than anticipated redemptions by initial SPAC investors
4. The earnout component and warrants allowing sponsors to purchase additional shares
(A) P-3, Q-1, R-2, S-4
(B) P-1, Q-4, R-3, S-2
(C) P-4, Q-2, R-1, S-3
(D) P-2, Q-3, R-4, S-1

May/June 2015

84. Which of the following statements regarding the SPAC capital structure is incorrect?
(A) In exchange for their investment, investors get units containing a share of common stock and a warrant.
(B) Following the IPO, the composition of shareholding is generally 80% public shares and 20% founder shares.
(C) The founders contribute the startup funding and stand to benefit financially from the purchased business.
(D) After the IPO, the units are strictly prohibited from being split up into warrants and common stock on the open market.

Oct/Nov 2015

85. What does the term "De-SPACing" refer to in the lifecycle of a SPAC?
(A) The process of dissolving the SPAC and returning funds to investors.
(B) The initial phase of filing for an IPO and securing underwriters.
(C) The procedure of splitting IPO units into common shares and warrants.
(D) The process of finding and finalizing a merger with a target firm.

May/June 2012

86. AlphaTech's sponsors initially contributed $8 million in non-refundable fees to cover banking, legal, and accounting expenses. If AlphaTech fails to identify and merge with a target company within the 24-month deadline, what happens to the $8 million initially contributed by the sponsors?
(A) Sponsors receive a full refund from the trust account upon liquidation.
(B) The funds are converted into public units and distributed to retail investors.
(C) Risk capital is lost if the sponsor fails to complete a merger.
(D) The capital is automatically rolled into a successor SPAC entity without loss.

Oct/Nov 2024

87. Consider the following statements about the overall mechanisms of a SPAC:
I. A SPAC is incorporated purely to raise capital via an IPO to acquire or merge with an existing company.
II. A SPAC merger relies entirely on the state

NODIA

(D) P-2, Q-1, R-3, S-4

May/June 2016

100. Which of the following statements correctly reflects the standard practice for issuing warrants to the general public in larger IPOs?

(A) The general public is entirely excluded from purchasing any portion of a warrant.

(B) The units offered to the public typically include a full, undivided warrant.

(C) The issuance of one-third or half of a warrant within the public units is standard practice.

(D) The public receives founder warrants, while the sponsors receive public warrants.

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May/June 2014

94. What is the most appropriate description of the function of a Securities Purchase Agreement in a SPAC?

(A) It dictates the terms of the private investment in public equity (PIPE) made by institutional investors.

(B) It issues founder shares to sponsors, typically sized at 25% of the shares initially registered.

(C) It outlines the parameters of the public warrants and the specific legal conditions required to change them.

(D) It governs the monthly administrative charges paid by the SPAC to the sponsor for utilities and office space.

Oct/Nov 2017

95. How are independent directors of a SPAC typically compensated given that they do not receive regular cash fees?

(A) Through a guaranteed monthly salary drawn directly from the trust account.

(B) Through a fixed percentage of the accrued interest from government securities.

(C) Through direct cash distributions derived from the Forward Purchase agreement.

(D) Through the cost-plus sale of founder shares outlined in the Securities Assignment Agreement.

May/June 2008

96. Suppose the management of GammaConsumer wishes to change the conditions of the Warrant Agreement due to market shifts. What level of approval is required from the warrant holders to successfully make this change?

(A) 25% approval

(B) 37.5% approval

(C) 50% approval

(D) Unanimous approval

Oct/Nov 2011

97. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below:

Assertion (A): Retail investors in a SPAC IPO face the risk of holding an investment that could be overhyped or fraudulent.

Reason (R): There is a narrow degree of oversight from regulators coupled with an absence of immediate disclosure about the target company from the SPAC.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

May/June 2021

98. Consider the following statements regarding the disadvantages of a SPAC:

I. Retail investors face an inability to track the use of their funds, leading to potential risk.

II. Financial diligence in a SPAC process requires far more stringent oversight than in a traditional IPO.

III. SPAC sponsors can cause shareholding dilution due to earnout components and warrants to purchase additional shares.

Which of the statements given above are correct?

(A) I and II only

(B) I and III only

(C) II and III only

(D) I, II, and III

Oct/Nov 2005

99. Match the following SPAC agreements (List I) with their corresponding descriptions (List II):

List I: (Agreements)

P. Charter

Q. Warrant Agreement

R. Sponsor Constituent Document

S. Letter Agreement

List II: (Descriptions)

1. Includes a lock-up agreement and an obligation to forfeit founder shares to the extent the green shoe is not exercised

2. Specifies the proportionate amount of the founder warrant purchase price that each owner will fund

3. Outlines the parameters of the warrant and requires a 50% approval to change conditions

4. Establishes the public shares and founder shares and limits the use of trust account money

(A) P-1, Q-2, R-4, S-3

(B) P-4, Q-3, R-2, S-1

(C) P-3, Q-4, R-1, S-2

NODIA

10. (C) Promissory Note
Before an initial public offering, a blank cheque company often lacks the necessary cash to cover administrative and offering expenses. To bridge this gap, sponsors typically enter into a promissory note with the company. This legal document functions as a loan, allowing the sponsors to provide the funds required for legal, travel, and roadshow costs.

11. (A) I, II, and III
Sponsors use various agreements to manage finances, including promissory notes for pre-offering costs and purchase agreements for warrants. Administrative service agreements allow the company to pay sponsors for office space and utilities. However, sponsors are not guaranteed a return of their risk capital; they lose their investment if no successful business combination is achieved within the timeframe.

12. (C) P-3, Q-1, R-2, S-4
In two thousand twenty, total investment in blank cheque companies reached eighty billion dollars. Regulations require the target's enterprise value to be at least eighty percent of the trust assets. Median performance lagged market indices by forty-two percentage points post-deal. By late two thousand twenty-one, seventy percent of newly public companies traded below their initial offer price.

13. (A) Complete elimination of the risk of shareholding dilution for public investors.
While blank cheque companies offer speed and price discovery, they do not eliminate dilution risks. In fact, the presence of sponsor founder shares, warrants, and potential earnout provisions usually leads to significant shareholding dilution for public investors. This dilution occurs when these instruments are converted into common stock, reducing the ownership percentage and value for original shareholders.

14. (D) 18 to 24 months
Upon raising capital through an initial public offering, a blank cheque company is typically granted a specific window to identify a target and complete a merger. This period generally lasts between eighteen and twenty-four months. If the management team fails to finalize a transaction within this timeframe, the company must liquidate and return funds to shareholders.

15. (A) Redemption Offer
Public investors in a blank cheque company have the right to exit their investment if they do not approve of a proposed merger. This is executed through a redemption offer, which allows shareholders to exchange their common stock for a pro-rata portion of the funds held in the trust account, typically equivalent to the original ten-dollar offering price.

16. (B) I, II, IV, and V
Blank cheque companies face risks such as underperformance after initial hype and a compressed timeline for financial reporting. Significant shareholding dilution from sponsor stakes and warrants is a common concern. Additionally, high redemption rates can lead to a capital deficiency. However, it is incorrect to claim that their financial due diligence is broader or more stringent than traditional offerings.

17. (A) 12.5 million : Maximum statutory limit of public shares that a SPAC can issue in an IPO
There is no fixed statutory limit of twelve point five million shares for a public offering by a blank cheque company; the size depends on the capital goals of the sponsors. However, twenty-four months is a standard merger timeline, and thirty-seven point five percent is the typical public vote threshold. Many such companies also traded below ten dollars recently.

18. (A) They offer industry flexibility and downside protection via redemption rights.
The surge in popularity for blank cheque companies is largely attributed to the flexibility they offer during market uncertainty. They allow seasoned managers to seek targets across various industries. Furthermore, the inclusion of redemption rights provides a safety net for investors, allowing them to reclaim their initial capital if they are dissatisfied with the proposed acquisition target.

19. (B) Public warrants are typically settled in cash, whereas founder warrants are net settled.
Public warrants in these vehicles usually require cash settlement, where the holder pays the strike price to receive a share. In contrast, founder

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ANSWERS

1. (C) Both I and II are correct
Money in a SPAC trust account is typically held in cash or invested in government securities to ensure capital preservation. This ensures safety for investors before a merger is finalized. In specific cases, the interest earned on these funds can be utilized to cover the SPAC's operating costs and working capital requirements.

2. (C) Sponsor commitment to vote their 20% stake in favor reduces the public threshold needed for a majority.
SPAC sponsors usually hold a twenty percent equity stake in the blank cheque company. Since these sponsors commit to voting their shares in favor of the proposed business combination at the time of the initial public offering, only thirty-seven point five percent of the remaining publicly held shares are needed to reach a simple majority.

3. (B) The Companies Act, 2013 stipulates that a company can be struck off if it does not commence operations within a year of incorporation.
Under the Companies Act, two thousand thirteen, the Registrar of Companies has the authority to strike off a firm if it fails to commence business operations within one year of its incorporation. This regulation presents a significant hurdle for forming blank cheque companies in India, as they often lack operational activities until a merger occurs.

4. (B) Deficiency in available capital
A major risk in the merger process is when a high volume of public investors choose to redeem their shares rather than participate in the acquisition. This high redemption rate drains the funds stored in the trust account, leading to a significant deficiency in the capital available to finalize the transaction or fund growth.

5. (C) Assertion (A) is true, but Reason (R) is false.
In a Special Purpose Acquisition Company transaction, traditional underwriters are not present to provide comfort letters for the target company, unlike in a standard initial public offering. However, the reasoning that the target is already public is incorrect. The target company is typically private and becomes public only after the merger with the SPAC.

6. (D) I, II, and III
A typical blank cheque company management team consists of experts in areas like private equity or mergers. These individuals are entitled to a twenty percent equity stake in the vehicle. Crucially, they do not receive cash salaries or finder's fees before the merger, ensuring their incentives are aligned with the successful completion of a business combination.

7. (A) P-3, Q-4, R-2, S-1
De-SPACing involves the search for and finalization of a merger with a target entity. Private investment in public equity, or PIPE, raises extra capital for the deal. The promote refers to the sponsors' twenty percent stake, while a Super eight-K filing provides detailed financial information equivalent to a standard registration once the merger is successfully closed.

8. (C) SPACs require highly stringent financial due diligence that exceeds the requirements of a traditional IPO.
One of the primary criticisms of blank cheque companies is that their due diligence process may be less rigorous compared to a traditional initial public offering. This potentially increases risks for retail investors. While target companies must prepare financials quickly, the level of oversight and scrutiny during the acquisition phase often does not exceed standard public offering requirements.

9. (A) Private Investment in Public Equity
The acronym PIPE stands for Private Investment in Public Equity. This financing mechanism involves institutional investors purchasing shares directly from a public company at a negotiated price. In the context of blank cheque companies, PIPE deals are frequently used to provide the additional capital necessary to finalize a merger and ensure sufficient post-acquisition liquidity.

NODIA

May/June 2024

76. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below:
Assertion (A): Negotiating the price of a target company upfront in a SPAC merger is considered a far more favorable strategy in an unstable market compared to an IPO.
Reason (R): In a traditional IPO, the price is determined by the state of the market at the time of listing, whereas in a SPAC, the price is negotiated before the transaction is finalized.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2021

77. Consider the following statements regarding the advantages of a SPAC:
I. A SPAC merger allows for the discovery of the price up front, a favorable strategy in an unstable market.
II. The cost of marketing is reduced because public exchanges do not require a comprehensive roadshow for a SPAC merger.
III. Going public through a SPAC merger typically takes twelve to eighteen months, providing a longer preparation window than an IPO.
Which of the statements given above are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2005

78. Arrange the following steps of the SPAC and De-SPAC process in chronological order:
I. Splitting of units into warrants and shares of common stock on the open market
II. Formation of the SPAC and initial public offering
III. Filing of the Super 8-K
IV. Signing of the acquisition agreement and committed finance
V. Depositing of IPO proceeds into a trust account
(A) II, I, V, IV, III
(B) II, V, I, IV, III
(C) V, II, IV, I, III
(D) II, V, IV, I, III

Oct/Nov 2010

79. Which of the following statements is correct regarding the voting rights of public shareholders in a SPAC?
(A) Public shareholders have the option to vote against the deal once a target firm has been found and announced.
(B) Public shareholders have no voting rights regarding the proposed business combination.
(C) Public shareholders can only vote if they hold more than 5% of the total outstanding shares.
(D) Public shareholders must unanimously approve the merger for the De-SPAC transaction to proceed.

May/June 2011

80. If Delta Energy had been structured as a blank cheque company operating purely under the domestic Indian regulatory framework, what immediate legal risk would it face if it conducted no commercial operations for a year?
(A) It would be forced to merge with a public sector bank.
(B) Its public shares would be automatically converted to government securities.
(C) The Registrar of Companies could strike off the company.
(D) SEBI would mandate an immediate 50% dividend payout.

Oct/Nov 2023

81. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below:
Assertion (A): A SPAC requires just 37.5% of the public shares to accomplish a majority vote to approve the De-SPAC transaction.
Reason (R): At the time of the IPO, founder shareholders commit at least 20 percent of the outstanding shares to vote in support of the transaction.
(A) Both Assertion (A) and Reason (R) are true,

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warrants are typically net settled, also known as cashless exercise. In this scenario, sponsors receive a number of shares reflecting the fair market value gain without being required to make a cash payment to the company.

20. (C) Founder warrants use net settlement, requiring no cash payment.
Unlike public warrants that generally require a cash payment of the strike price, founder warrants are typically designed for net settlement. This means that the sponsors can exercise their warrants without an additional cash outlay. Instead, they receive a quantity of shares proportional to the difference between the current market price and the exercise price.

21. (D) Assertion (A) is false, but Reason (R) is true.
Public warrants are generally cash-settled, requiring investors to pay the exercise price to receive shares, making the assertion false. Conversely, the reason is true because founder warrants are typically structured for net settlement. This allows the sponsors to receive shares based on the value appreciation of the stock without needing to provide any additional cash to the company.

22. (B) Only II is correct
Founder shareholders commit to voting their shares in support of the merger at the outset of the initial public offering. This commitment simplifies the approval process. However, the requirement is not fifty percent of all public shares. Because sponsors hold a twenty percent stake, they only need approximately thirty-seven point five percent of public votes to reach a majority.

23. (A) III, II, IV, I
The lifecycle of a blank cheque company begins with its formation and the initial public offering to raise capital. Once funded, the management team initiates a search for a suitable target company. This is followed by detailed negotiations regarding the merger terms. Finally, the process concludes with investor meetings and a formal shareholder vote to approve the transaction.

24. (B) At least 100% of the gross IPO proceeds are placed in the trust account.
To protect investors, a sum equal to or greater than one hundred percent of the gross proceeds from the initial public offering is deposited into a trust account. These funds are typically invested in secure government securities or held as cash. They cannot be used for management salaries and are reserved for completing the merger or redeeming shares.

25. (A) PIPE (Private Investment in Public Equity) commitment
When a high number of share redemptions causes a cash shortfall, sponsors often turn to Private Investment in Public Equity, or PIPE. This involves institutional investors committing capital to the transaction to ensure the target company receives the necessary funds. This secondary layer of financing is crucial for closing the deal when the trust account has been depleted by exits.

26. (D) Assertion (A) is false, but Reason (R) is true.
Management teams of blank cheque companies do not receive regular cash wages or compensation prior to the merger, which makes the assertion false. However, the reason is true because these companies are incorporated solely as vehicles to raise capital through an initial public offering and do not engage in commercial operations until a business combination is completed.

27. (B) I and III only
The company's charter includes anti-dilution provisions for founder shares to maintain the sponsors' ownership percentage. Additionally, a warrant agreement must be executed between the company and the transfer agent before any warrants can be issued. However, securities purchase agreements often allow for adjustments to founder shares through stock splits or dividends to align with the final capital structure.

28. (C) P-2, Q-3, R-4, S-1
A merger involving a blank cheque company typically takes three to six months to execute. This is faster than a traditional initial public offering, which usually requires twelve to eighteen months. These companies generally have eighteen to twenty-four months to finalize a deal. After closing, a Super eight-K filing must be

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submitted to the regulator within four business days.

29. (B) A traditional IPO typically executes faster, taking 3 to 6 months compared to the 12 to 18 months required for a SPAC merger.
The assertion that traditional initial public offerings are faster is incorrect. In reality, a merger with a blank cheque company is significantly faster, usually concluding in three to six months. In contrast, the traditional process of going public typically takes between twelve and eighteen months. If no merger occurs within the allotted twenty-four months, the entity is liquidated.

30. (C) Blank Cheque Companies
Special Purpose Acquisition Companies are frequently referred to as blank cheque companies in popular media and financial news. This name reflects the nature of the investment, where the public provides capital to sponsors without knowing the specific target company that will eventually be acquired. Investors essentially trust the management's expertise to find a profitable business opportunity later.

31. (D) Administrative Service Agreement
To manage operational needs, a blank cheque company enters into an administrative service agreement with its sponsor. This contract authorizes the company to pay a monthly fee to the sponsor for providing essential resources. These resources typically include rented office space, utilities, secretarial support, and other administrative services required during the search for an acquisition target.

32. (A) I, II, and III
Blank cheque companies usually have eighteen to twenty-four months to find a target, and the target's value must represent at least eighty percent of the trust assets. Public shareholders maintain the right to vote or redeem. However, the claim that the target is already public and thus lacks an underwriter is false; the target is typically a private company.

33. (D) P-3, Q-1, R-2, S-4
The Companies Act allows for striking off companies without operations for a year. The Sarbanes-Oxley Act increased regulatory burdens for small firms. SEC accounting changes in early twenty-one led to a slowdown in new filings. ReNew Energy Global represented the first major instance of an Indian business listing overseas through a merger with a blank cheque company.

34. (B) Forward Purchase Agreement
A forward purchase agreement is a contract where institutional investors or sponsor affiliates agree to provide additional capital to the company. This commitment is often contingent upon the eventual acquisition target meeting the investor's specific mandate. These funds are essential for ensuring the company has enough cash to close the transaction, especially if redemptions by public shareholders are high.

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35. (B) 12.5 million shares
Sponsors aim to maintain a twenty percent equity stake in the total outstanding common stock after the initial public offering. If fifty million shares are issued to the public, these represent eighty percent of the total. Therefore, the total shares would be sixty-two point five million. The sponsors must hold twelve point five million shares to account for the remaining twenty percent.

36. (B) I, III, and IV
The merger process requires shareholder approval, and sponsors commit their twenty percent stake to vote in favor. If the deal fails, capital is returned to public investors while founder shares and warrants expire worthless. However, stock exchanges do not always mandate a vote; rather, it is the company's charter and SEC regulations that typically necessitate the voting process.

37. (D) P-3, Q-4, R-2, S-1
A promissory note provides bridge funding for pre-IPO expenses. The administrative service agreement covers monthly costs like office space. Independent directors are compensated via the cost-plus sale of founder shares through a securities assignment agreement. Finally, the private placement warrants purchase agreement allows for the financing of founder warrants shortly before the initial public offering concludes.

38. (A) Stock exchanges mandate that voting by shareholders is strictly necessary for them to process the transaction.
It is a common misconception that stock exchanges strictly mandate shareholder voting for all transactions. While a vote is standard practice and required by most company charters and SEC proxy rules, the exchange regulations themselves are not the primary legal driver for the necessity of a vote. Other statements regarding proxy filings and Super eight-K deadlines are accurate.

39. (C) The 20% stake in the SPAC held by sponsors via founder shares.
In the context of these investment vehicles, the term promote refers to the twenty percent equity stake that the sponsors receive in the form of founder shares. This stake is intended to compensate the management team for their expertise, efforts in identifying a target, and the risk capital they provide to cover the initial administrative and offering costs of the entity.

40. (B) Yes, since target value must be at least 80% of trust assets.
Standard regulatory and exchange guidelines require that the enterprise value of the target company must represent at least eighty percent of the total assets held in the trust account at the time of the acquisition agreement. Since the biotech firm's value is eighty-five percent of the trust assets, it successfully meets and exceeds this minimum regulatory threshold for a merger.

41. (D) I, II, III, IV, and V
The merger process involves filing Form S-four to register securities and providing comprehensive financial disclosures including management discussion. After closing, a Super eight-K must be submitted within four business days. Because sponsors commit their shares, only thirty-seven point five percent of public votes are needed. Redemptions apply specifically to shares and do not affect warrants until they are exercised.

42. (B) PIPE : Private Investment in Public Equity used to fund the transaction and fuel growth.
PIPE stands for private investment in public equity, which is a critical funding source used to finalize acquisitions and provide growth capital. Blank cheque companies are not barred from raising capital; they exist for that purpose. The promote refers to equity stakes, not fees. Form S-four is used for registering new securities during a merger, not for liquidation.

43. (C) The Sponsor Constituent Document
While certificates of incorporation and registration rights agreements are common to most public companies, the sponsor constituent document is unique to the structure of blank cheque companies. This specific document is used to formalize the relationship between the various owners of the sponsor entity, outlining their relative participation and financial commitments to the venture and its underlying warrants.

44. (C) 50%
The warrant agreement is a legally binding contract that establishes the terms and conditions of the warrants issued by the company. To modify these conditions, such as the exercise price or expiration date, the company must obtain the approval of a specific threshold of warrant holders. Generally, a simple majority of fifty percent of the holders must agree to any changes.

45. (D) A sum equal to or greater than 100%
Regulations and market standards require that at least one hundred percent of the gross proceeds raised from the initial public offering must be placed into a secure trust account. This ensures that the capital provided by public investors is preserved and can only be used for the eventual business combination or returned to the investors through the redemption process.

46. (D) Assertion (A) is false, but Reason (R) is true.
The assertion that India's framework readily allows blank cheque companies without time constraints is false, as significant legal hurdles exist. The reason is true because the Companies Act, two thousand thirteen, empowers the Registrar of Companies to strike off any company that fails to begin its business operations within one year, which directly conflicts with the typical SPAC lifecycle.

47. (D) Neither I nor II is correct
Founder warrants cannot be redeemed for cash, and they are typically net settled, meaning the sponsors do not pay a strike price. Conversely, public warrants are generally cash-settled, where

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company involves negotiating the price directly with the target. This provides both the company and the sponsors with greater certainty and stability, as the valuation is fixed before the deal is announced and finalized.

66. (B) Public warrants are cash-settled by paying the specific strike price.
When public warrants become exercisable following a successful merger, the standard procedure is cash settlement. Investors who wish to exercise their warrants must pay the specified strike price, usually eleven dollars and fifty cents, to the company. In exchange for this cash payment, the company issues a full share of common stock to the warrant holder.

67. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Sponsors face a significant financial risk because they provide the non-refundable capital needed to launch the entity. If they fail to complete a business combination within the two-year deadline, the company is liquidated and the public investors are repaid from the trust account. The sponsors, however, lose their entire investment as their expenses and capital contributions are not recovered.

68. (D) An agreement outlining the exact cash salaries to be paid to the management team prior to the merger.
The letter agreement includes provisions for indemnification, voting commitments to support the deal, and rules for forfeiting founder shares if the over-allotment option is not used. However, it does not include cash salaries for the management team because these individuals typically do not receive any salary or finder's fees until a business combination has been successfully completed.

69. (B) Four business days
Once a merger is finalized, the resulting public entity is required to file a Form eight-K with the Securities and Exchange Commission. This specific filing, often called a Super eight-K, must contain detailed financial and operational information about the newly acquired business. The strict regulatory deadline for submitting this document is within four business days of the transaction closing.

70. (C) 37.5%
Because the sponsors already hold twenty percent of the total outstanding shares and are contractually committed to voting in favor of the merger, only a portion of the remaining shares is needed to reach a simple majority. Specifically, the company only requires approximately thirty-seven point five percent of the publicly held shares to vote yes to successfully approve the transaction.

71. (D) I, II, III, IV, and V
All provided statements are correct regarding the specialized financing of these vehicles. PIPE deals provide extra equity, public warrants require cash, while founder warrants are net settled. Forward purchase agreements involve commitments from affiliates or institutions to supply closing funds, often depending on whether the acquisition target aligns with the investor's specific mandate and investment goals.

72. (B) Only II is correct
Statement one is incorrect because the Indian framework actually imposes significant operational time constraints through the Companies Act. Statement two is correct, as businesses like Videocon d-two-h and Yatra did indeed utilize mergers with blank cheque companies for listing purposes before the notable ReNew Power transaction. These earlier deals paved the way for future overseas listings.

73. (B) The industry experience and reputation of the seasoned business leaders acting as sponsors.
When sponsors seek capital for a blank cheque company, they cannot disclose a target because none has been identified. Therefore, the primary selling point for investors is the management team's track record. Investors are essentially betting on the sponsors' ability to leverage their industry expertise and professional networks to find and execute a successful and profitable business merger.

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74. (C) To provide bridge funding for administrative and offering costs pre-IPO.
Before the initial public offering is completed, the company has no capital of its own to pay for the significant costs of going public, such as legal and accounting fees. The sponsors use a promissory note to lend the company the necessary funds

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merger. If the sponsors hold twelve point five million shares and these shares are valued at the standard ten-dollar offer price upon vesting, the total monetary value of their stake would be one hundred and twenty-five million dollars. This represents the significant upside potential for successful sponsors.

57. (C) II, III, and IV
SEC accounting rules in early twenty-one slowed filings, and the Sarbanes-Oxley Act made traditional listings harder for small companies, driving them toward these alternatives. By late twenty-one, most such companies traded below their ten-dollar IPO price. However, SEBI did not explicitly prohibit all global listings in May twenty-two; rather, India has specific constraints within its domestic company laws.

58. (B) P-4, Q-1, R-2, S-3
The trust account is primarily funded by public investors with a small sponsor contribution. Public warrants are cash-settled by paying the strike price, whereas founder warrants are net settled based on market value appreciation. Forward purchase agreements involve commitments from institutional investors to provide the necessary capital to ensure the transaction can be finalized despite any potential share redemptions.

59. (C) The founders contribute the startup funding and stand to benefit financially from the purchased business.
While founders do contribute initial risk capital, it is the public investors who provide the vast majority of the startup funding used for the actual acquisition. The incorrect statement is that units cannot be split; in practice, units are designed to be split into common stock and warrants on the open market shortly after the initial public offering.

60. (D) 600
The year two thousand twenty-one marked a massive boom in the popularity of blank cheque companies. Driven by high market liquidity and the search for efficient ways to go public, approximately six hundred such initial public offerings took place globally. This represented a dramatic increase compared to previous years and highlighted the mainstream acceptance of this alternative method for public listings.

61. (D) Form S-4
When a blank cheque company intends to issue new securities as part of a proposed merger, it must file a registration statement with the Securities and Exchange Commission. This is typically done using Form S-four. This comprehensive document serves as both a registration for the new shares and a proxy statement that provides shareholders with the detailed information needed to vote.

62. (A) I, II, III, and V
Securities assignment agreements facilitate director compensation, while sponsor constituent documents define the internal relationships of the sponsors. Letter agreements handle founder share forfeitures related to over-allotment options, and promissory notes provide pre-offering funding. However, registration rights agreements provide rights to both the sponsors and the target company's shareholders, not just the target shareholders alone.

63. (B) Sponsors : Issue comfort letters ensuring the target company meets all regulatory requirements.
Sponsors do not issue comfort letters regarding the target company's regulatory compliance; this is typically the role of independent auditors or accountants in a traditional offering. In these transactions, the absence of an underwriter's comfort letter is often cited as a risk. Other pairs, such as the transfer agent signing the warrant agreement and management receiving twenty percent equity, are correct.

64. (D) Distributing annual cash dividends to the public investors prior to the De-SPAC transaction.
Funds in the trust account are strictly protected and can only be used for specific purposes like paying for the business combination, redeeming shares, or providing working capital after the merger. They are not permitted to be used for distributing annual cash dividends to investors before a deal is finalized. This restriction ensures the capital remains available for the acquisition.

65. (D) Upfront price negotiation provides stability during volatile market conditions.
Unlike a traditional public offering where the price is determined by market demand at the time of listing, a merger with a blank cheque

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investors must pay the strike price to receive shares. Both statements in the question reverse the standard characteristics of how public and founder warrants are actually handled in these transactions.

48. (A) To provide additional closing funds, often contingent on the deal meeting their investment mandate.
Private equity funds engage in forward purchase commitments to ensure a merger has sufficient capital to close. These commitments are often conditional, meaning the fund will only provide the money if the specific acquisition target aligns with their investment strategy. This provides the company with a reliable source of funding to offset potential shareholder redemptions during the final merger stage.

49. (A) Redemption of public shares at a higher rate than anticipated.
A deficiency in available capital occurs when a large percentage of public shareholders exercise their redemption rights. When these investors choose to withdraw their money from the trust account instead of staying invested in the merged entity, the cash available to pay the target company or fund future operations is significantly reduced, potentially jeopardizing the success of the entire transaction.

50. (B) The Securities and Exchange Commission (SEC)
In April two thousand twenty-one, the Securities and Exchange Commission, the primary financial regulator in the United States, issued new accounting guidance regarding the treatment of warrants. This regulatory shift required warrants to be classified as liabilities rather than equity on balance sheets, which significantly slowed down new filings as companies adjusted to the more complex reporting requirements.

51. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Public investors face a high risk of shareholding dilution because the capital structure includes several mechanisms that favor the sponsors. The sponsors' twenty percent stake, combined with warrants and potential earnout provisions, results in the issuance of many additional shares upon the merger. This increases the total share count and decreases the proportionate ownership and value for the original investors.

52. (C) I and III only
Sponsors contribute non-refundable capital to cover administrative expenses. If successful, this relatively small initial investment, such as seven to eight million dollars, can result in an equity stake worth over one hundred million dollars. However, if the combination fails, sponsors do not receive a refund of their risk capital; instead, their investment is lost during the liquidation.

53. (D) P-3, Q-2, R-1, S-4
Sponsors provide the initial non-refundable risk capital. Public investors receive units consisting of stock and warrants. The target company is primarily responsible for preparing the financial statements required for regulatory filings. Independent directors are typically not paid in cash but are compensated through the cost-plus sale of founder shares, which aligns their interests with the deal's success.

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54. (D) Public shareholders may exchange their shares for a proportional amount of trust account funds.
The redemption offer is a core feature that protects public investors. It allows them to exchange their common shares for a pro-rata portion of the money held in the trust account, usually the original ten-dollar investment plus interest. This right is available if the investor disagrees with the proposed merger, regardless of whether they vote for or against the deal.

55. (B) A company formed solely to raise IPO capital to merge with or acquire an existing operational business.
A Special Purpose Acquisition Company is a shell corporation designed specifically to raise money from the public through an initial offering. The sole objective of this entity is to use the proceeds to identify and merge with an existing, privately held operational business. This process provides the private company with a faster and often more predictable path to becoming public.

56. (C) $125 million
Sponsors typically hold founder shares that convert into common stock at the time of the

to cover these pre-offering administrative and offering expenses, ensuring the entity can reach the public markets.

75. (D) The transfer agent
The warrant agreement is a foundational legal document that defines the rights of warrant holders and the obligations of the company. This agreement must be signed by the company and an external transfer agent. The transfer agent's role is to manage the issuance, exercise, and tracking of the warrants, ensuring that the process follows the established legal parameters.

76. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Negotiating the price upfront is a major advantage during periods of market volatility. In a traditional public offering, the final price is highly sensitive to the market conditions on the day of the listing, which can lead to uncertainty. In contrast, the merger process allows for a fixed valuation to be agreed upon beforehand, providing stability for both parties.

77. (A) I and II only
Blank cheque companies offer upfront price discovery and reduced marketing costs since a full traditional roadshow is often unnecessary. However, statement three is incorrect because the merger process is typically much faster than a traditional public offering, often taking only three to six months to execute once a target is found, rather than twelve to eighteen months.

78. (B) II, V, I, IV, III
The process starts with the company's formation and initial public offering. The proceeds are then deposited into a trust account. Subsequently, the units can be split into shares and warrants on the open market. After identifying a target, the acquisition agreement and financing are signed. Finally, the process concludes with the filing of the Super eight-K post-merger.

79. (A) Public shareholders have the option to vote against the deal once a target firm has been found and announced.
Public shareholders in these entities possess the right to vote on the proposed business combination. Once a target is announced and the proxy materials are distributed, shareholders can cast their vote to approve or reject the merger. This voting mechanism, combined with the right to redeem shares, provides essential oversight and protection for the public investors.

80. (C) The Registrar of Companies could strike off the company.
If a blank cheque company were established in India and failed to commence any commercial operations within its first year, it would face a direct legal threat under the Companies Act, two thousand thirteen. The Registrar of Companies has the power to strike the company's name off the register for being inactive, which effectively dissolves the corporate entity.

81. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The requirement for only thirty-seven point five percent of public shares to approve a deal is a direct consequence of the sponsors' initial commitment. Since sponsors hold twenty percent of the shares and agree to vote in favor, they only need a portion of the public vote to reach the fifty-one percent simple majority required for the transaction.

82. (A) I, II, and III
Trust accounts are funded by over one hundred percent of offering proceeds, with a small sponsor contribution. Public units often contain fractional warrants. However, founder warrants are not cash-settled based on the offering price; they are typically net settled, meaning sponsors receive shares based on the stock's price appreciation without paying a cash strike price to the company.

83. (A) P-3, Q-1, R-2, S-4
High redemptions cause a capital deficiency. The compact timeframe forces the target to establish public functions very quickly. Narrow financial diligence can lead to incorrect valuations because the process is often less rigorous than a traditional offering. Finally, the various equity instruments like warrants and the sponsor promote inevitably lead to significant shareholding dilution for the initial public investors.

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before the merger. Statement two is correct; if the company fails to complete a combination and is liquidated, the management team is excluded from the distribution of assets. Only public shareholders are entitled to receive the funds held in the trust account.

94. (B) It issues founder shares to sponsors, typically sized at 25% of the shares initially registered.
The securities purchase agreement is the legal mechanism used to issue founder shares to the sponsors. These shares are typically sized to equal twenty-five percent of the number of shares initially registered for the public offering. This ensures that the sponsors maintain their target ownership of twenty percent of the total outstanding common stock after the offering concludes.

95. (D) Through the cost-plus sale of founder shares outlined in the Securities Assignment Agreement.
Independent directors do not receive standard cash fees for their service on the board of a blank cheque company. Instead, they are compensated through a securities assignment agreement. This allows them to purchase founder shares from the sponsors at a cost-plus price, providing them with an equity stake that only becomes valuable if a successful merger is completed.

96. (C) 50% approval
Modifying the terms of a warrant agreement, such as changing the exercise period or price, requires a specific level of consent from the holders of the warrants. In most cases, the agreement stipulates that a simple majority, or fifty percent of the warrant holders, must vote in favor of the proposed changes for them to become legally effective.

97. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Retail investors face significant risks because these companies often operate with less regulatory oversight and disclosure than traditional offerings. The assertion is true regarding the risk of hype or fraud. The reason is also true, as the lack of initial information about the target company makes it difficult for individual investors to perform thorough independent due diligence.

98. (B) I and III only
Investors often struggle to track how their funds are used, and the presence of warrants and sponsor founder shares causes notable shareholding dilution. These are both valid disadvantages. However, statement two is incorrect because the financial diligence performed in the merger process is generally considered to be less stringent and narrower in scope than that of a traditional offering.

99. (B) P-4, Q-3, R-2, S-1
The charter establishes the share classes and limits trust fund usage. The warrant agreement sets the fifty percent threshold for changes. The sponsor constituent document details how much each sponsor owner pays for founder warrants. Finally, the letter agreement includes important lock-up provisions and rules regarding the forfeiture of shares if the over-allotment option is not fully exercised.

100. (C) The issuance of one-third or half of a warrant within the public units is standard practice.
In larger public offerings, it is a standard market practice to include only a fraction of a warrant in each unit sold to the public. For example, a unit might consist of one share of common stock and one-third or one-half of a warrant. This structure helps manage the potential dilution that occurs when warrants are eventually exercised after a merger.

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84. (D) After the IPO, the units are strictly prohibited from being split up into warrants and common stock on the open market.
It is incorrect to say that units cannot be split. In reality, a standard feature of these offerings is that the units, which consist of a share and a warrant, are designed to be separated on the open market after a certain period. This allows investors to trade the common stock and the warrants as independent financial instruments.

85. (D) The process of finding and finalizing a merger with a target firm.
The term De-SPACing refers to the phase where the shell company fulfills its purpose by identifying, negotiating, and completing a merger with a private target company. This transition converts the blank cheque entity into an operational public company. It involves various steps including due diligence, securing additional financing like PIPE, and obtaining the necessary shareholder approvals.

86. (C) Risk capital is lost if the sponsor fails to complete a merger.
The initial capital contributed by sponsors to cover banking, legal, and administrative costs is considered at-risk capital. If the sponsors fail to finalize a merger within the mandatory two-year window, the entity must liquidate. While public investors receive their money back from the trust account, the sponsors' initial eight-million-dollar contribution is unrecovered and effectively lost upon dissolution.

87. (B) I, III, IV, and V
These companies are formed to raise capital for mergers and can use PIPE deals for extra funds. Liquidation occurs if no deal is found, and the new entity lists on an exchange post-merger. However, statement two is false because a key advantage is the ability to negotiate the transaction price upfront rather than relying solely on market conditions.

88. (A) Promissory Note : Lends funds to the SPAC to cover costs prior to the completion of the IPO.
A promissory note is specifically used to bridge the funding gap for pre-offering expenses. Securities assignment agreements handle director compensation, not voting obligations. The charter establishes the corporate structure, while the warrant agreement defines warrant parameters. Founder shares are typically sized to twenty percent of the total outstanding stock, not twenty-five percent of only the public shares.

89. (D) All of the above
The management team of a blank cheque company is structured so that they do not receive any immediate financial rewards before a merger is completed. They are strictly prohibited from collecting cash wages, finder's fees, or traditional operating bonuses during the search phase. Their only significant compensation comes from the potential increase in the value of their equity stake.

90. (C) 20%
The standard capital structure of these investment vehicles entitles the management team and sponsors to a twenty percent equity stake in the company. This is achieved through the issuance of founder shares at a nominal price. This twenty percent interest, often called the promote, serves as the primary incentive for the team to successfully identify and acquire a target.

91. (B) Within four business days of the closing
Regulatory requirements mandate that once a business combination is completed, the company must provide the public with comprehensive information about the new acquisition. This is done through a Super eight-K filing, which includes historical financial data and other essential disclosures. The company has a strict window of four business days following the merger's close to file this.

92. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
These companies are specifically formed by sponsors who possess deep expertise in a particular industry. The assertion is true because their professional background is the foundation of the entity. The reason is also true, as they aim to use this expertise to identify valuable business opportunities and execute a merger within the timeframe allowed by the company's charter.

93. (B) Only II is correct
Statement one is incorrect because management does not receive any salary from the trust account

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